

ANNUAL REPORT OF THE POSTMASTER GENERAL

HEARING BEFORE THE SUBCOMMITTEE ON FEDERAL SERVICES, POST OFFICE, AND CIVIL SERVICE OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE ONE HUNDRED FIRST CONGRESS

FIRST SESSION

APRIL 7, 1989

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FRIDAY, APRIL 7, 1989

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL SERVICES,
POST OFFICE, AND CIVIL SERVICE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice at 9:38 a.m., in room SD-342, Dirksen Senate Office Building, Hon. David Pryor, Chairman of the Subcommittee, presiding.

Present: Senators Pryor, Stevens, and Levin.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Good morning. The Subcommittee will come to order. Today we will hear from the Postmaster General, Mr. Anthony Frank. Mr. Frank is appearing pursuant to the statutory mandate in our postal laws that the Postmaster General submit an annual report to the Congress. This is his second such appearance before the Subcommittee in this regard.

I do not think I have to say this, but just in case there are any doubts, I would like to make it perfectly clear—I have been and I will continue to be a strong supporter of the U.S. Postal Service. The role it plays in our daily lives and the contribution it makes to the Nation's economy is, while often taken for granted, rather extraordinary. And, as a Senator from the rural, centrally located State of Arkansas, I can attest to the importance of our universal postal system as a component of the glue that binds our Nation together.

Having restated my support for the Postal Service, now let me also state some concerns.

Despite the deployment of substantial amounts of high-tech mail sorting equipment, despite the growing use of a centralized delivery, and despite volume growth with easier to handle pre-sorted mail, postal productivity over the past decade has been anemic at best. Costs, increasing on the order of 2-plus billion dollars per year, seem out of control. Cost avoidance plans, if they get off the ground, either fall short and/or savings are not captured. The Service, at this time, seems to be hemorrhaging.

The Postal Service, having weathered the ideological storm of the Reagan years, is now faced with an economic storm, largely, I think, of its own making. It is not enough for those of us who support the Postal Service to offer our blind allegiance. We must

face—the entire postal community, all of us must face—what amounts to a serious crisis, so that we can preserve and protect our Postal Service.

Mr. Postmaster General, I have a number of questions for you and your colleagues this morning, concerning postal financing, productivity and, of course, the Service's use of consultants. You may proceed with your statement at this time. But, before you do, if I might, let me call on my colleague, Senator Ted Stevens of Alaska, whom, I think, will have to leave in about 15 or 20 minutes.

Senator PRYOR. Senator Stevens.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Mr. Chairman, you are correct; and I have explained to the Postmaster General my problem, dealing with the ongoing disaster crisis that we have in Alaska.

Thank you, Mr. Chairman, for calling this annual hearing so early in the year. An observer recently commented that this should be an easy year for the Postal Service. There is not, after all, a rate case, thus no rate increase is pending. Labor negotiations are not until next year. There are no board vacancies, and everything appears to be going the Postal Service's way with regard to the off-budget legislation.

Well, I hope that no one really believes that observation. For, what the Postal Service does this year will not only determine the scope and size of next year's rate case and wage package but will also determine the degree of essential public support for what we all hope can be accomplished this year.

These hearings are important to the process of learning exactly how the Postal Service management is planning to keep this Federal entity on track. We on the Committee have the same goals for, and commitment to, the Postal Service as do those in the Postal Service. But, it is disturbing when major mailers tell us that they are losing confidence in the ability of postal management to control costs. We are disturbed by reports that businesses are looking for alternative delivery systems.

I have seen reports that this hearing will be the opposite of the "love feast" hearing which was held on the House side recently. I do not know the tone of the House hearings, but I do not view these hearings as either adversarial or "love feasts," but instead I see them as an effort to determine where the Postal Service is heading and get Postal Service management to respond to tough questions which have been raised.

I see nothing to be gained really, to ask you questions which I know it is going to take research from you and your colleagues in the Postal Service, and you would merely have to say that you would be happy to furnish an answer for the record. I think it is much better to submit the questions for the record and have your answers come back to us on the record. And we will study those and see what we can do. Those questions and answers, after all, are available to everyone. And I hope that is agreeable to you, Mr. Chairman, to do it that way.

Senator PRYOR. Without objection.

Senator STEVENS. And I again want to apologize to you, and Mr. Cox, Mr. Coughlin. I do have to leave here in just about 10 minutes to join the President and his group in reviewing the action he intends to take on a series of requests the Alaska delegation made 2 days ago, concerning our disaster.

Thank you very much, Mr. Chairman.

Senator PRYOR. Thank you, Senator Stevens.

Before we proceed I have a statement for the record from Senator Sasser who could not attend today's hearing.

[Senator Sasser's statement follows:]

STATEMENT OF SENATOR SASSER

Good afternoon, Mr. Chairman. I join you and the rest of the Subcommittee in welcoming Postmaster General Frank, for the second of what I hope will be many annual visits to review the operations of the Postal Service.

If I could digress for a moment, we recently had the honor of the Postmaster General's company at official ceremonies marking the designation of the Lewis E. Moore, Sr. post office in Nashville, Tennessee. Let me say again, Mr. Frank, that I was delighted and appreciative that you were able to attend those proceedings. Lewis Moore was not only the longest tenured postmaster in Nashville's history, he was one of the most dedicated and imaginative. I think your attendance underscored the appreciation all Nashvillians feel for a hard-working and selfless member of the Nation's Postal Service.

Last year, Mr. Postmaster General, I expressed appreciation for your long-term commitment to your job. I also referred to the challenges facing the Postal Service, in an era of budgetary restraints and pressure for increased productivity and modernization.

I continue to feel that on the whole, the American people get a bargain from their Postal Service. In fulfilling their constitutional mandate, to provide universal service, the Post Office's employees get billions of pieces of mail to their destination. I am encouraged by the tone of your three-part agenda: Lengthening the time between rate adjustments, best service to the postal patron, and better labor-management relations.

I am still concerned, though, as I was last year, about the size of the contingency allowance in the Postal Service budget. Over the three fiscal years ending with 1991, I understand the total contingency will have amounted to about \$1.3 billion dollars. This is supposed to be a cushion, but last year we saw evidence that it is already being relentlessly eaten up by fiscal miscalculations, such as the Postal Service's underestimation of increases in employee health benefits.

I will be interested to know more about the current state of the postal contingency fund. I hope we will hear what measures postal management has been, or is considering, to insure that the fund remains a source of last resort rather than first resort.

I have also reviewed the Postal Rate Commission staff study commissioned by the chairman of this subcommittee, my good friend David Pryor. That study concerned the extent to which automated mail processing, especially optical character readers, has been implemented and whether projected productivity savings have been realized. It troubled me, frankly, to learn that while automation per se yields tangible improvements in productivity, they have been offset by other factors to the extent that productivity in the Postal Service is virtually regressing. And the improvement brought about by automation has not been as high as originally expected, due mainly to a miscalculation about the use of "ZIP+4" by mailers.

So we look forward to hearing your perspective, Mr. Frank, on how the Postal Service plans to improve its productivity and budgetary management. We are here to help where possible, not merely to criticize. But we all know that the initiative and leadership have to come from the Postal Service itself.

Senator PRYOR. Mr. Postmaster General, you have heard opening statements from two of your great supporters and friends who, I might add, are very, very concerned about the Postal Service in our country today. You are now recognized for a statement.

TESTIMONY OF ANTHONY M. FRANK, POSTMASTER GENERAL,
U.S. POSTAL SERVICE, WASHINGTON, DC, ACCOMPANIED BY
MICHAEL S. COUGHLIN, DEPUTY POSTMASTER GENERAL,
COMER S. COPPIE, SENIOR ASSISTANT POSTMASTER GENERAL
FOR FINANCE, AND LOUIS A. COX, GENERAL COUNSEL

Mr. FRANK. Thank you, Mr. Chairman and Senator Stevens. Recognizing your concern, recognizing the time pressures that you have, and hearing from Senator Stevens that we have a good chance to get off-budget, I think I would like to get to the tough questions as quickly as possible, and ask your permission not to read my statement, but submit it for the record.¹

Senator PRYOR. Certainly. Go right ahead.

Mr. FRANK. We are prepared to answer any questions that you might have. Let me say that I think we have made a lot of progress in the last year; some of it obscured in the figures. I am a big believer in the automation program. I think the automation program has saved us hundreds of millions of dollars, and will continue to be more important.

We are beginning to get an understanding, among all of those involved in the Postal Service, that we need to pull together. There are still some elements that do not quite believe that, and I hope that we and the other people involved can convince them. But we are making progress. And we have reduced grievances in the work place by the 50 percent that we had asked for in this fiscal year. And that is quite an accomplishment, I think, in one year.

We have been—I do not think it is an overstatement—we have been rebuilding and remodeling an airplane while we are flying it, and that is not an easy thing to do. We process and deliver 500 million pieces of mail a day, 6 days a week; and at the same time, we are deploying the greatest amount of automation that has ever been deployed, that I know of, in the civilian sector. With a new optical character reader and a new bar code sorter, and now, starting in a few months, a new advanced facer canceller, every single day we are making progress.

I would like to say, in answer to some of your questions in the charts, that it is taking longer to implement some of these savings than we thought; but I think it is understandable, given the magnitude of what we are trying to do, which is rebuilding an airplane while we are flying it.

I don't think the costs are out of control. I think we are here at mid-year of our postal fiscal year, and we are about \$100 million away from our budget. We operate within tolerances that I think the private sector would envy. If we missed our expense budget by 1 percent, and if we missed our revenue budget by 1 percent, that could total to a deviation from budget of almost \$800 million. And yet, in the private sector, a deviation of 1 percent would be applauded rather than criticized. And as I say, right now we are \$100 million off our budget for Fiscal Year 1989.

The automation program is a good one. I think it is well-conceived. It is new. It is difficult to assess. We do not stand still. We are not in an environment in which there is no change. We are

¹ See p. 28 for Mr. Frank's prepared statement.

dealing with the consequences of the Postal Rate Commission's decisions. I personally do not agree with some of the rates established by the Postal Rate Commission in the last rate case. And they have had consequence on our volume and on the work content of our operation.

And lastly, there are aspects of the Postal Service's work that do not deal with productivity; in fact, that are inimical to productivity. And one, of course, is service. We need to provide a high level of service. Well, I suppose the higher level of service, the lower the productivity. We have added about 2,200 people here in the Greater Washington Area in the last year and one-half or so to provide a better level of service, which I know everybody agrees that we need to do. That certainly is no addition to productivity.

We are serving an additional 1.5 million or more new addresses every year. And that requires us to hire more carriers. That does not add to productivity. It adds to hours. We have our work cut out for us, but we know what to do. I think we are in control of our destiny. And I think that we have much that the American people can be proud of. We can do better, and we will.

Senator PRYOR. Mr. Frank, I am going to yield to Senator Stevens at this time for questions.

Senator Stevens.

Senator STEVENS. You are very kind, Mr. Chairman, and I thank you. Mr. Frank, I understand we have projected a deficiency in congressional mail of \$29 million. In the budget for the Fiscal Year 1990, we will be requesting a supplemental of only \$7.1 million. This question is one I would normally put in the record, however, I think we ought to mention it publicly. I believe you should supply the Committee with a detailed statement of what will happen if the supplemental is not passed or is passed at a level that will not cover the deficiency.

As I understand the situation, we did have an agreement last year on the limitation of the amount that would be spent by Congress for congressional mail. The Senate lived up to that limitation. The House did not.

Now, what are the options available to the Postal Service in the event that the monies that are provided by Congress to cover the Congressional mail are not sufficient to cover your costs?

Mr. FRANK. Well, to oversimplify, we could take the position that no money, no delivery. I think that would be a reasonably foolish thing to do.

Senator STEVENS. What would you do in the private sector? Suppose AT&T did not pay its bill?

Mr. FRANK. That is exactly what we would do. And of course, in the private sector, we are paid in advance by every single customer.

Senator STEVENS. In that instance, you ask them to put money up in advance to provide the service?

Mr. FRANK. That is correct.

Senator STEVENS. Why can't we legislate the same system for the Congress? Is it possible?

Mr. FRANK. Well, you use the word "legislate," and that is outside my purview.

Senator STEVENS. Mr. Cox, can you envision a system whereby we would have an account to draw on and if that account was not kept up sufficiently to cover the cost of our mail that you could refuse the mail of Congress?

Mr. Cox. Well, I think the Congress could certainly establish such a system, if it chose to, Senator.

Senator STEVENS. Well, would you kindly prepare a bill and deliver draft legislation to us for setting up such a system, so that the Congressional mail service depends upon advance appropriations put into the postal system. I think it is unconscionable for us to run a Congressional mail system the way we do now. We should and must answer our mail. Those people who think that I ought to pay, personally, to answer all the mail I am getting from all over the country right now about this oil spill ought to think again. But as a practical matter, we have to pay for all our mail. I mean, our part of the Federal budget has to reflect the cost of Postal Service; and currently, there seems to be no control whatsoever from one House of the Congress over this mail system.

I would like to propose legislation which puts us in the position of any other user, bulk user; we pay up front; we project what we are going to use, and you notify us when we are starting to run over. If we do not put up money within the period of time required by the basic law, you just announce that you are not going to deliver any more Congressional mail.

That may get some people's attention.

Mr. FRANK. We will certainly provide you with a draft, Senator.¹

Senator STEVENS. Secondly, and this will be my last question. I will submit others for the record. But I want to raise this issue.

You discussed last year with us the plans for renovating the Old District of Columbia Main City Post Office Building, and I expressed my concern that that was not proceeding as rapidly as it should. The additional Government office space is needed.

I understand there is still no final agreement between you and GSA. I would like to have you tell us now, if you can, what is the status of the project, and whether you have any additional problems that have developed since our hearing last year that have delayed the signing of the master lease with GSA?

Mr. FRANK. Well, we both have been anxious to sign for many months. The lease is almost ready, and I think most terms have been agreed upon. I think that the plan of development is a sound one. I understand now that we plan to complete negotiations by June 1, and I am looking forward to that. I think it will be a good program.

We do worry that interest rates will change on long-term mortgages, which would affect the financial viability of the deal. But if they do not, and it is signed, we will go ahead; and I think we will have a project that everybody will be proud of.

Senator STEVENS. Financially, can you handle that without any problem?

Mr. FRANK. Right now, if interest rates stay where they are, it will be a good deal for everybody concerned. It will provide first-

¹ See p. 34.

class space at a good rate to GSA, or to whomever GSA releases the space to. And we can assure the American people that we are using our assets wisely to offset other cost increases that effect postage rates.

Senator STEVENS. Thank you very much. Thank you, Mr. Chairman, for your courtesy. I look forward to the answer of these other questions.

Senator PRYOR. Thank you, Senator Stevens. Additional questions from Senator Stevens will be submitted in writing to the Postmaster General and his colleagues.

Thank you, Senator Stevens.

Mr. Postmaster General, last year I asked about the drop in the productivity of the Postal Services, or the very negligible increase, let me say; and I was told by Mr. Coughlin, who is with you this morning, that the problem was, "Matching manpower resources with the workload in the field during the first half of 1987."

I was also told that things had turned around during the second half of 1987; that the Service had some pretty strong productivity growth during the first half of 1988. Now we learn—as we look at the chart and from the comprehensive and annual reports for 1988—that productivity was actually negative for 1987 and, at best, only a minute, almost unrecognizable growth for 1988.

Now, what happened to this rosy picture that you were painting last year, what happened to the 1987 turnaround; and what happened in 1988?

Mr. FRANK. Are you addressing that to Mr. Coughlin?

Senator PRYOR. Well, I addressed this last year to Mr. Coughlin, so let me address it to him now, Mr. Postmaster General. We will come back to you.

Mr. COUGHLIN. Thank you, Mr. Chairman. Let me start the response by addressing the issue of automation. The Postmaster General touched on the subject in his opening comments, but I would like to underscore something as it relates to the automation program itself.

I am convinced, and I think most of our people are convinced, that automation is working and working well in the Postal Service. We have had post-audits by our Inspection Service of both Phases I and II of the automation program, and both of those have shown very positive returns on investment; 22 percent in one case, and 28 percent in another.

Phase IIA, which went into operation just about a year ago at this time, which was the conversion to the multi-line system, is working well; and we are moving a lot of mail up what-we-call the distribution ladder.

Now, the productivity problems we face—and yes, there have been some that we face in the short run—I believe have a lot more to do with things like changing volume growth patterns and mail mix and, as I said last year, matching manpower to workload. We had a rate increase 1 year ago at this time; and it did, in fact, change not only the rate of growth that we were experiencing in mail volume, but the mix of the mail we were seeing and, at the same time, the work load content of that mail. And the ability of this system to adjust to that in the short run is difficult.

As the Postmaster General alluded to earlier in his comments, we frankly made some investments in several areas of the country in terms of service problems, one of them being right here in the D.C. area. As he said, we have added something like 2,200 people in the short run to fix some service problems; and I think we are beginning to see some results of that.

We continue to have, outside the scope of the automation program, as such, real demands in growth in the delivery area. To give you an example, over the last year we have had to add something like 2,000 rural routes and about 3,600 city delivery routes. These further demands the press our performance on productivity.

And finally, there are some short-term problems simply in balancing manpower within the system, as we shift from one system, that being the old manual, mechanized system, to the automated system.

Senator PRYOR. Both you and the Postmaster General have taken great pride in adding 2,200 new people in the Washington, DC area. What do these people do?

Mr. COUGHLIN. The bulk of them, on the Virginia side, are in the delivery part of our operation. We have had, I think as you know, explosive growth over there and some very high overtime rates. Some of it is in the processing side, but most of it is in the delivery area. We have added a lot of new routes in northern Virginia.

The same is true for the Maryland side. A majority of it is in the delivery area, and some of it is dedicated to the processing side as well.

Senator PRYOR. It is my understanding that in 2 years you have increased what we call the Headquarters Budget by about 15 percent. Now, why have we had to increase the Headquarters Budget by 15 percent? How many new people have we added?

Mr. COUGHLIN. We have, as of a couple of weeks ago, which was the last time I looked at the count, about 2,200 people in Headquarters. And by Headquarters, I mean the L'Enfant Plaza operation, not the Inspection Service and those other functions that, at various times, have been counted as Headquarters. That is a number that fluctuates up and down. We are sitting about where we were in 1985. I think we were a little less than we were at the end of the last fiscal year.

Senator PRYOR. I cannot fathom what 2,200 people will do in L'Enfant Plaza in the Postal bureaucracy. I cannot imagine what they do. Why do we have to have such a large contingency there? It looks like, to me, that would slowdown productivity.

Mr. COUGHLIN. Sometimes I feel like it does.

Senator PRYOR. Well, why do we have to have all these people?

Mr. COUGHLIN. Well, there are a variety of activities that they perform, Mr. Chairman. For example, this year, we are hosting the Universal Postal Union Congress.

Senator PRYOR. I want to talk about that a little later. What is that going to cost?

Mr. COUGHLIN. In this short run, that has required us to put on about 30 people, I think, in terms of the preparation for that. We also have equipment deployment programs going on. Over the last year, we have added about 35 in the Engineering and Technical Support Department to handle that.

Senator PRYOR. What are we going to get out of this? What is the cost-benefit ratio for hosting such a meeting?

Mr. COUGHLIN. Well, I think you can measure it in dollars and cents, and I think you can measure it also in terms of international cooperation of the world's mail service.

We expect to break even as a minimum, in terms of the cost of hosting the Universal Postal Union.

Senator PRYOR. You are bringing in 1,000 dignitaries from 200 countries, how will this be financed?

Mr. COUGHLIN. We expect to cover the cost of that through, essentially, the sale of philatelic products associated with the Universal Postal Union Congress. As the host country, we have an exclusive right to issue philatelic products associated with that. We will be hosting, at the time of the Congress in November and December for 3 weeks, a stamp exposition called World Expc, where there will be philatelic exhibits and exhibitors from around the world. That kind of activity generates a considerable amount of income.

Senator PRYOR. I am still baffled as to why we are having it to begin with, but, maybe, I can be educated in this area.

Now, let me move, if I might, to the Postmaster General for just a moment. You mentioned off-budget in your remarks. I am a supporter of the Postal Service going off-budget. Right now, the perception is: one, as I have mentioned, that the Postal Service is hemorrhaging financially; two, that the productivity gains are negligible and we can hardly count it; it is such a low percentage; and thirdly, we have just had a major increase in the postal rates that went into effect 1 year ago in April. I do not see where all this money, these new revenues, is going or how it has increased the productivity of the Postal Service. Nor do I see anything that is going to come out of it that is going to paint, what I consider to be, a very rosy picture for productivity in 1989.

Do we have any hopes?

Mr. FRANK. This program of automation is——

Senator PRYOR. Now, we have had this program a long time, before you came.

Mr. FRANK. I am not sure about that. The Postal Service bought what are called single-line optical character readers in anticipation, apparently several years ago, of a lot of ZIP+4 mail, which did not result. Those have to now be rebuilt, and that is being done. And 406 of those machines will have been rebuilt by next month.

Senator PRYOR. Out of how many?

Mr. FRANK. That is all. That is basically all of the single-line machines.

Senator PRYOR. Now, what do you mean rebuilt?

Mr. FRANK. Rebuilt to read two bottom lines of the address, rather than just one.

Senator PRYOR. I see.

Mr. FRANK. And we have announced a program to have 100 percent of our mail, with a bar code on it by 1995. Right now, we are probably in the 40 percent range of letters, and not at all in Third Class or Second Class mail. So we have a long way to go. But it is working.

Automation is not going to impact us in the short term. It is not going to impact 1989 dramatically except, as I say, it will save us several hundreds of millions of dollars which, unfortunately, are entirely eaten or more than entirely eaten by the increase in health benefit costs for our employees.

Right now, our health benefit increases are more than automation savings increases, which is a tragedy, I guess, that we share with the private sector. But that is something that we need to work on; and we are. Although at the moment, we have no control, unfortunately, over our share of the Federal Health Benefits Program.

So 1989 is halfway through. Automation is a long-term program. This automation program, Mr. Chairman, applies almost entirely to 25 percent of our work hours; that is, processing hours. And we are able to automate, as I indicated, only 40 percent of the mail. So 40 percent of 25 percent is 10 percent. So our automation program, in effect, applies only to 10 percent of our workhours.

This is an island of automation, if you will, and it has got to be expanded into a system of automation which goes all the way through everything that we do, including delivery. We are a long way from that. I do not think that we will start to see any indication of benefits from automation of delivery until 1992 or 1993 at the earliest.

Senator PRYOR. Last October, The Washington Post carried an article about the problems with mail sorting equipment in the Southern Maryland Division and found or alleged that three of the division's 11 OCRs—that is the optical character readers—were out of commission and that it would take months to fix them.

Question: When I buy a refrigerator, or when I buy an automobile, I have a warranty that comes with that purchase. What sort of warranty does the Postal Service have when they purchase this equipment?

Mr. FRANK. Well, I will ask Mr. Coughlin about that. We obviously—we have our own technicians. We are training 15,000 technicians some of which attend more than one class, for a total of 19,000 courses, a year at our school in Norman, Oklahoma, and elsewhere. But let me comment on the Southern Maryland article. The article was incorrect.

They had single-line optical character readers. Those single-line optical character readers, as I just indicated, are taken out of commission and are retro-fitted, and then put back in service. That is about a 5 or 6-week process; there is no other way to do it. And so, it is not fair for the article to say that they were out of commission. They were out of commission because they were being retro-fitted.

Mr. COUGHLIN. Mr. Chairman, to get to your specific question first, about the warranty. We do not accept the machine from the company until it has met our specifications or our performance standards, and that is demonstrated through a 2-week performance test at the time the machine is either converted or initially deployed; nor do we pay for it, until that occurs.

In the case of the Southern Maryland situation, what we were going through, as the Postmaster General said, was the conversion from single-line to multi-line reading capability. And there was

never more than one single-line machine down at any time, with the exception of one 2-day period in Washington, D.C.

Senator PRYOR. Maybe I missed something. You are not saying that we only have a 2-week warranty on all this?

Mr. COUGHLIN. No. No. No.

Senator PRYOR. How long is the warranty?

Mr. COUGHLIN. Well, we put it through a performance test.

Senator PRYOR. And then, after 2 weeks, if it works, you pay them?

Mr. COUGHLIN. That is right.

Senator PRYOR. Then after that, what is the responsibility of the provider of those machines?

Mr. COUGHLIN. Only if there is some demonstrated failure that appears later on, against the basic specifications, is there some requirement on the contractor. And frankly, we have not had that problem. We simply have not had that problem with these machines. They have performed very well technically.

Senator PRYOR. But yet, we have 19,000 people who work on all this automation equipment, is this correct?

Mr. COUGHLIN. Mr. Chairman, they work on a variety of equipment, and we have literally thousands of pieces of equipment deployed around the system. All the way from facer cancelers to optical character readers, to bar code sorters, to small parcel and bundle sorters, to computer forwarding systems and computers, and timekeeping systems. It takes a lot of people to maintain those systems.

Mr. FRANK. Three shifts a day.

Senator PRYOR. Sounds to me like a lot of things need working on, and I don't know why we don't get a better warranty on some of the very expensive machinery that we purchase.

Mr. COUGHLIN. Again, Mr. Chairman, all I can say is that the performance of this machinery, these optical character readers, has been very good, up to this point. We have had little or no problem with them.

Senator PRYOR. I not only want to take note of the presence of Senator Levin I want to yield to Senator Levin for any questions or comments that he might have.

Senator Levin.

Senator LEVIN. Thank you, Senator Pryor. First of all, I appreciate your giving me a chance to join you for a few minutes here this morning. I am not a member of this Subcommittee, but I do have a number of questions.

Senator PRYOR. Well, we need all the help we can get on this Subcommittee, Senator Levin. And we appreciate your being here.

Senator LEVIN. Thank you, Mr. Chairman. Let me join in welcoming Mr. Frank and his colleagues here. I am interested in that question you raised at the end, Mr. Chairman. Let me follow it up. I was not planning on asking any questions about this issue, but we have similar questions in the Pentagon. Let me see if I understand your answer.

As I gather, we designed this machinery, is that right? These were not performance specifications? These were design specifications, or did I mis-hear you on that?

Mr. COUGHLIN. These were performance specifications, Senator, yes.

Senator LEVIN. They were performance specifications?

Mr. COUGHLIN. Yes.

Senator LEVIN. So if they do not live up to those specifications, presumably then, we have a cause of action against the manufacturer?

Mr. COUGHLIN. Yes. That is more of a legal question, but yes, I think that is true.

Senator LEVIN. If they do not perform as they were guaranteed to perform, do the specifications require that they perform? Do we have a cause of action against the manufacturer?

Mr. Cox. Senator, I would prefer, if you will allow me, to go have a look at these contracts and provide an answer for the record. I hate to answer questions of that kind without knowing what is in the contract.¹

Senator LEVIN. Alright, well, I think that is what the Chairman was driving at; and I think that an answer for the record would be interesting to the Subcommittee, to all of us; because this is a question which we struggle with all the time.

But I would be surprised if we do not have a cause of action against the manufacturer of a machine when we provided performance specifications, when the machinery does not live up to those specifications. I would be surprised, and I agree with the Chairman.

These were not design specifications, where we designed the machinery. These were performance specifications, where we said the machinery had to live up to certain performance guidelines. So if you could provide that for the record, it would be helpful.

Just a couple questions, Mr. Chairman. First of all, Mr. Frank, I have had a number of letters that we have exchanged, and I appreciate your prompt response to those letters in a number of areas.

One of the areas that we have corresponded in has to do with the question of the procurement regulations of the Postal Service to expressly require public notification of any significant proposed non-competitive contract. I believe that you wrote me in January, indicating that the Postal Service was in the process of amending your regulations to expressly make that requirement. There had been a problem about such contracts which did not have competition.

Can you give us the status of that? Do you know off-hand?

Mr. FRANK. We are doing that, sir.

Senator LEVIN. Do you know when that will be done? Do you have a timetable for it? Or is it done already?

Mr. FRANK. Yes, it is being done.

Senator LEVIN. Being done, or has been done? I think Mr. Cox is maybe giving me a slightly different signal, I am not sure.

Mr. Cox. Senator, we published something, I think it was called Interim Change in the Procurement Regulations, something like a month ago.²

Senator LEVIN. Will that be the final change?

¹ See p. 37 for information subsequently submitted.

² See p. 42 for information subsequently submitted.

Mr. Cox. I think in substance, it will be final. I think at some point, as a matter of form, that interim change would be folded into the more permanent version of the regulation.

Senator LEVIN. That is helpful.

Mr. Cox. But that does require all sorts of awards to be publicized in certain circumstances, which were not so required in the past.

Senator LEVIN. That is useful. Thank you. The only other question I have has to do with cutbacks in the schedules for building or moving or renovating Post Offices and postal facilities. There are three that I have been in touch with: Iron Mountain, Lincoln Park and Muskegon. So I have a particular focused interest in those three; but in general, my question is, how much delayed are we because of, I believe, the 1987 Reconciliation Bill? How long a delay on the average are we going to see in our program for these approved projects?

Mr. FRANK. It is a very serious matter. We cut back our real estate operation by 74 percent in 1988 and 50 percent in 1989, as a result of the December 1987, action. Some 750 projects were affected; some of those projects will never be built now. The land is gone, or the costs have escalated, or zoning has been changed. But, with the exception of those projects, things have been delayed 2 years.

Senator LEVIN. So typically, for the approved projects, it has been a 2-year delay, except for ones that now have fallen off the edge?

Mr. FRANK. Yes, sir.

Senator LEVIN. I appreciate that. I know that this is not a constraint that you brought upon yourself, and we will continue to work with you to see to it that those projects are completed as quickly as possible.

Mr. Chairman, thank you again.

Senator PRYOR. Senator Levin, thank you. I would like to continue for a moment, with the line of questioning as Senator Levin. Let me just talk more generally here. It seems to me what we are saying, or what I am ascertaining from this, is the problem is not necessarily with postal equipment, it is with the management decisions.

For example, we brought the wrong equipment, ZIP+4 equipment, and then we had to change it all around; is this correct? This was a terrible, horrendous management decision.

Mr. FRANK. I am not a great student of history; but single-line was bought and mandated in the early 1980s in anticipation of a lot of water-applied ZIP+4 mail. The ZIP+4 mail was not forthcoming, among other things, because I gather the Congress commanded that it not be done for 2 years.

Senator PRYOR. But, let us stop right there, Mr. Postmaster General. I think Mr. Coughlin recommended we buy all this equipment before the ZIP+4 system was ever legalized, or ever authorized by the Congress; am I correct?

Mr. COUGHLIN. Well, I was certainly a part of the senior management of the Postal Service at that time; and I did testify early on in the ZIP+4 process. The decision that was made initially was to implement a longer ZIP code, a ZIP+4 code, that would let us take, in the distribution system, mail sorted down to the carrier

route or segments of the carrier route. Our strategy at that point, which was in 1978, was to get the mailer to apply that code to the envelope and then use single-line optical character readers to read the bottom line of the envelopes.

Now, a variety of things occurred in the interim. In 1980, we got the authorization from the Board of Governors and went ahead and bought the initial set of single-line optical character readers. They began to be deployed in late 1982 and early 1983. In the interim, we had the 2-year delay on the actual implementation of the ZIP+4 code. And we did go ahead and put the single-line system in. And I referred earlier to some post-audits done by the Inspection Service. At the time it was approved by the Board of Governors the estimated return on investment for the five-digit portion of the single-line system was about 22 percent. And the post-audit of that system, in fact, demonstrated—this was done by the Inspection Service—a 22 percent return on investment.

So it paid for itself. It more than paid for itself. Now, at the same time, clearly the application of the ZIP+4 code by the mailer did not meet our volume expectations. The technology changed; and we finally said, "We have got to change, too."

And that is what we have done. But I remain convinced that the single-line application that we had in the early 1980s and had, really until about 1 year ago and, in a few cases, still have, more than paid for itself.

Senator PRYOR. I will not accuse you of using smoke and mirrors budgeting; but to me, that is very, very hard for me to ascertain. Regarding the impact of automation, when we talked about automation earlier this year, we asked the Postal Rate Commission to examine the impact of deployment of the OCR/BCS, Optical Character Reader/Bar Code Sorter. The Commission's study, which I am releasing today, concludes that the Service has neither realized nor captured the savings associated with the deployment of almost \$1 billion worth of automated mail sorting equipment.

Now, how do we respond to that? How do you respond to this?

Mr. FRANK. Well, I had a brief discussion with Chairperson Steiger the other day; and I said, "Are you saying we are not getting any benefits from automation?"

And she said, "No. I am saying that what you are saving is being spent in other areas."

And I would sure subscribe to that point of view. We are making a very high return on our investment in automation. It is being offset in a number of ways. Perhaps, Mr. Chairman, I could go to basics.

The costs of the Postal Service, to oversimplify, seem to be going up about 7 percent a year. Eighty-five percent of our costs in the Postal Service are people; that is, salaries and benefits. Ours is probably the most people-intensive business in the world. To offset that 7 percent increase, we really only have two alternatives besides rate increases. One is increases in volume, and the other is increases in productivity.

And so we are getting to the point where, if everything goes the way that it should and we get the benefits of automation and we get some continued volume increases, my guess is that, at best, that could yield only be about a 2 percent offset in fiscal year 1989.

So we are facing, in my opinion, unless we make some dramatic changes, an increase of about 5 percent in net costs this year.

And that means every 3 years, about a 16 percent overall increase. I do not think that is supportable. I think if that is continued, it will erode the patronage of the Postal Service and the confidence in it. We are going to have to make some dramatic changes. Those changes will be wrenching for those involved. We are going to have to play on the entire piano keyboard; contracting out, work-sharing; more cooperation from labor; more part-time and temporary work; every one of which is opposed by and is controversial to at least one group. We will need more cooperation from the mailing public, particularly the large mailers, to put bar codes on envelopes. That is what it is going to take to reduce that net 5 percent increase in costs over income year by year, unless we choose to make it up by periodic rate increases.

Senator PRYOR. Mr. Frank, you mentioned contracting out. What types of services would you like to contract out?

Mr. FRANK. Well, I would like to look at contracting out within two mandatory contexts. One, that we continue to do our mission of providing uniform, universal Postal Service. I am certainly not proposing to shut down any offices or engage in activities that will impair our mission.

The second context is that we do not affect, as far as their employment, our current employees. I think those are two mandatory hurdles that we have to cross over. Past that point, I think we need to look at everything. That does not mean that we automatically and slavishly go to contracting out. There are a lot of good reasons to do things internally. But we do contract out now something like 13-percent of our budget, which includes about 15 percent of the rates delivering mail to our rural customers are contracted out.

We are proposing to talk to vendors on the matter of remote video encoding, and we so informed our unions yesterday. Remote video encoding is a brand new technology; one that does not take full-time people and which can be performed off the premises.

We think, subject to a lot of investigation and work, that there is a potential savings here, possibly, of \$250 million; having the work done under contract. That is an example of an area that we are looking at. But we are not going to turn the Postal Service upside-down. We certainly are not going to affect our most valuable resource, which is our existing employees.

Maybe we need to look at permanent part-time people. It is something that mail services of other countries do as a matter of course. For example, housewives and other part-time workers represent over 75 percent of the work force in the Netherlands, for example.

We need to look at the whole area, work-sharing and contracting out; working with our unions, and working with more flexibility. It is not going to be easy, and we hope we have the support of the Congress and the American people.

Senator PRYOR. Mr. Frank, you made reference to a conversation with Ms. Steiger, the Chairman of the Postal Rate Commission. I am going to put in the record a letter from Ms. Steiger, dated

March 28, 1989, and document what the Postal Rate Commission provided.¹

Senator PRYOR. Let me, if I might, take the second page of Ms. Steiger's letter to me, and I will read only one sentence from it. It is in the third-to-the-last paragraph.

"Thus, it appears either that automation is currently having no positive impact on productivity, or that any gains are being more than offset elsewhere in the system."

I think that is something that you probably addressed orally with Ms. Steiger after the letter she addressed to me.

Mr. FRANK. Yes, and I agree with her statement.

Senator PRYOR. I would like to move to another area. I may come back to one or two of these areas relating to finances.

Now, let me see. When we talk about a chronological order, you correct me, or your colleagues correct me, when and if I am wrong at any step.

On the rate increase that was recommended in February 1988, the Postal Rate Commission gave the Service an extra \$1 billion to cover costs that were not anticipated but maybe should have been. This was for health insurance, labor agreements, other considerations, including some of the deficit reduction payments. The Commission also included a \$1.3 billion contingency fund in its recommended decision. The Service apparently realized \$900 million more—not less, but more—in revenue than anticipated by virtue of raising rates 9 weeks earlier than the Postal Service had originally planned.

Now, that is a lot of new dollars. By my calculation, it seems the Service should have quite a surplus in 1988. My question is, how much surplus?

Mr. FRANK. I will ask Mr. Coppie to comment specifically; but in as much as I came here after all of that activity, maybe I could look at it a little more dispassionately than people who were involved. We were given a contingency, and there are a lot of reasons for that. I already explained that a swing of one percent in each of our two categories can just about eat up a large portion of that contingency.

I will tell you that and there are some mitigating factors—obviously, we wrote a \$510 million check to the U.S. Treasury—and our health benefit costs have gone up and so on. But in my view, I think there was an over-eagerness to come out at the 25-cent stamp figure. And that enthusiasm for an even number, which was certainly understandable, led, I believe, in retrospect, management to attempt unprecedented and obviously now unachievable productivity gains; 2.2 percent in Fiscal Year 1988, I think. And those productivity gains just were not in the cards.

This job of implementing automation is proving to be most difficult. And frankly, I just think that there was a productivity target that just did not prove to be true. And so, the bulk of the \$1 billion that we are throwing around here is eaten up by more hours; hours that were spent because the productivity was not realized.

¹ See p. 48.

With your concurrence, I would like to ask our Chief Financial Officer to add anything that could be added to that.

Senator PRYOR. Certainly.

Mr. COPPIE. Mr. Chairman, you asked that anything you said that was in error to be corrected. Nothing you said was necessarily in error, and I do not want to pick on words; but I would want the record to show that the Rate Commission did not give us an extra \$1 billion. They essentially gave us our revenue requirement; within that, they made adjustments.

The primary adjustment was related to an assumption that we made with regard to the number of Postal Service employees that would convert from the Civil Service Retirement System to the new Federal Employees Retirement System. In our original submission, we overestimated the number of employees that would convert; and that resulted in excess costs of approximately \$800 million-to-\$1 billion. The Rate Commission, in recognition of that, removed those excess costs and substituted the for other costs that you pointed out: the labor settlement and health benefits, being primary examples.

So I just want the record to show that it was not an extra \$1 billion. There were plus and minus adjustments within our revenue request that they made, and we strongly supported that. More importantly, Mr. Chairman, I want to underscore what the Postmaster General has said, and I see your chart there, and it is essentially correct in terms of taking the Rate Commission through the end of the fiscal year.

We realized a \$597 million net loss in Fiscal Year 1988. That loss would have been reduced by \$510 million if we had not had to make the payments required by the Omnibus Budget Reconciliation Act. On the other hand, our situation would have been substantially improved as the Postmaster General pointed out, if we had realized our productivity targets built into the rate case, impacting on Fiscal Year 1988 and Fiscal Year 1989.

We are not dismissing the productivity challenge that we have. That has been underscored by the Postmaster General and the Deputy. I would point out that those were our targets set by us. They were aggressive targets, and we are not defensive about the fact that we did not attain them; but we do underscore the fact that they were very aggressive and unilaterally established.

Senator PRYOR. A moment ago, the Postmaster General talked about a \$510 million check that the U.S. Postal Service wrote to the U.S. Treasury. Now, was not \$160 million of that to come from "savings," in the Postal Service? How were those savings to be achieved?

Mr. COPPIE. Those savings were to be achieved through reductions in operating expense.

Senator PRYOR. How much did you save there?

Mr. COPPIE. Let me point out, Mr. Chairman, the savings were required by the Omnibus Budget Reconciliation Act.

Senator PRYOR. I remember that very well.

Mr. COPPIE. That Act requires the General Accounting Office to audit our performance relative to those savings and report to the Congress. The GAO did audit, consistent with the legal require-

ment, and did confirm that at least \$160 million was saved, as required by the Act.

Senator PRYOR. By closing the number of window hours out in the postal community?

Mr. COPPIE. Well, that was one of the factors.

Senator PRYOR. Cutting back?

Mr. COPPIE. We did. As you know, the new Postmaster General came in. He was aware of the concern that was expressed by you and others relative to those window-hour closings, and we did go forward later in Fiscal Year 1988 to make the adjustment to reopen window hours.

Senator PRYOR. I remember that. I also remember at the same time you were cutting back the number of hours of service to the general public in the various Post Offices throughout the country, you were adding 10 percent to the Headquarters payroll here in Washington, D.C. That does not make sense to me.

Mr. COPPIE. Well, Mr. Chairman, we can quarrel over specific issues here. We are prepared to defend the Headquarters Budget for the Postal Service. We are also prepared to defend the way we went forward to carry out the requirements of the Omnibus Budget Reconciliation Act. That is not to say that you and others are not going to question our judgment. But we are prepared to say that, at the point in time that we made these decisions, we felt that they were based on prudent and responsible decisionmaking.

Senator PRYOR. Yes. Mr. Coppie, about a year ago, when the postal rate increase was approved, the budget reconciliation of 1987 was in place. Extra money was given you, not only in a contingency fund of \$1.3 billion but also \$1 billion to cover costs that were not anticipated. On top of that, you realized \$900 million in extra revenues because the rate went into effect earlier than planned. What were you anticipating, say this time last year, as to what the surplus of the Postal Service would be at this time?

Mr. COPPIE. Mr. Chairman, as we went forward to prepare for the Fiscal Year 1989 President's budget, we concluded that the net income target was \$500 million and \$600 million. That is our target or our plan for this year. Now, it begs the obvious question. The Rate Commission had us essentially as breaking even in the test year of Fiscal Year 1989 after the \$1.3 billion contingency; it is actually \$1.5 billion or \$1.6 billion because of another adjustment. It begs the obvious question—what accounts for the differential between \$600 million and \$1.6 billion that was consumed by Postal Service expense.

Senator PRYOR. What sort of expense? Where are these expenses?

Mr. COPPIE. The primary ingredient here is the one that has been acknowledged this morning. And that is, that additional work hours were required to meet Postal Service workload.

Senator PRYOR. Back to the issue of automation.

Mr. COPPIE. Not so much the issue of automation, but our productivity targets which were more ambitious than we realized, Mr. Chairman. Our productivity targets are impacted by more than automation.

Senator PRYOR. I know this is a tough question; maybe you would like to expand for the record. How many dollars, rounded off in millions, have we spent on automation? Any way to know?

Mr. COPPIE. Between 1982 and 1988, I believe it is over \$750 million. We will, in the future, be spending a great deal more. But the amount to date, Mr. Chairman, seems large; it is close to \$1 billion. However, it is not particularly high in relationship to the total need in the Postal Service.

Senator PRYOR. We have spent all this in automation. We are in the red. Productivity is down. Postal rates are up. What is our next step? Give me some advice.

Mr. FRANK. Sir, we are realizing a return of 25 percent or so a year on those expenditures. We are realizing, in round terms, \$250 million to \$300 million a year in savings that we would not otherwise without automation. And so then, you say, well, does that hide the fact that your other costs are running ahead by \$250 million or \$300 million? And the answer is yes.

But the automation program is working. It is paying for itself. It is giving the return on investment that we anticipated. It is, as I have said before and I do not want to repeat myself unless you would like me to, it is concentrated on a small part of our operation right now; and that is mail processing. But it is working; and I thought we are doing well for the first three quarters of 1988, and indeed the figures indicated that.

But with any kind of flattening of volume or absence of work content which we experienced in the fourth quarter of last year, our very sensitive measure of total factor productivity goes down. But we are saving the money. We are making the return on the money expended on automation.

Mr. COPPIE. I think it is important, too, that the record show that we are not an agency without restrictions in the area of finance. We have costs that are imposed on us by the Congress; and costs that are imposed on us by surrogates to the Congress in the area of, particularly, health benefits. Our health benefit costs have substantially exceeded what we were told they would be in each of the recent fiscal years. That is not to defend the bottom line, and it is not to defend the fact that we have not realized our productivity targets. But we are not totally autonomous in the area of finance. We have costs that are imposed on us.

Senator PRYOR. But the sum total of what we are getting at right now is that we are about \$1 billion over projection in expenditures, is that right?

Mr. FRANK. For which year, sir?

Senator PRYOR. In the past year.

Mr. COPPIE. Mr. Chairman, let me just say, if you are assuming that the Rate Commission gave us a \$1.3 billion contingency for the test year, which is the year we are in, Fiscal Year 1989, and that contingency has been, in part, consumed, your assumption is correct.

That contingency is made available to meet unanticipated costs on revenue shortfalls. Those contingencies include costs that are imposed on the Postal Service by others. It is also made available to help meet contingencies within the management of the Postal Service. And we have acknowledged to you that we have not realized our productivity target. Therefore, the contingency has been helpful in meeting our costs in Fiscal Year 1989. Let the record show, in no uncertain terms, that that is the case.

Senator PRYOR. Well, I am even giving you the benefit of the doubt of close to \$200 million, because the Postmaster General told us about writing the check for \$510 million. You come back and say, "Wait a minute. We saved \$160 million closing all those windows out there two or three hours a day, so that is \$350 million net right there rather than the \$510 million."

So had we not had that, I guess we would be even deeper in the red.

Mr. FRANK. Well, the \$160 million offset itself. That is, we were mandated to save \$160 million, and we wrote a check for \$160 million. So one way of looking at it would be the way that you indicated, which is a net check to the Treasury of \$350 million.

Senator PRYOR. I am not really good at beating up on people and I do not want to beat up on you, but I cannot understand a lot of this because I guess it is beyond my ability to comprehend some of the accounting methods.

I am going to move to an area that I know a little bit more about and one that you mentioned—contracting out. I want to ask a few questions about consultants. And I hope we have given you advance notice on a couple of the contracts that we are going to talk about.

First, last year, I advised that the Subcommittee would be really looking at not only the Postal Service's use of consultants, but the Government-wide use. I have been into this for about 11 years now. I asked, for example, from you a list of all Postal Service contracts that might be classified as consultants. The written response to my request was that the Service was incapable of providing this information; that such information could not be culled from the contract date base.

However, you indicated that an upgraded management information system in 1989 would enable you to provide the list. Do we have that list now?

Mr. FRANK. Well, we made some progress, sir. But I would like Mr. Coughlin to describe where we are.

Senator PRYOR. Mr. Coughlin, do you hand out all these consulting contracts?

Mr. COUGHLIN. No, sir, I certainly do not.

Senator PRYOR. I will bet you cannot tell me who does.

Mr. COUGHLIN. Well, the Contracting Officers, of course, in our Procurement and Supply Department do. They handle the actual contract. The requirements people are spread throughout the building and throughout the Postal Service for various kinds of technical support. As the Postmaster General said, no, we do not have some kind of centralized data base right now that is fully developed that can answer your question. It is under development.

Senator PRYOR. You mean the Contracting Officer cannot tell this Subcommittee who he has consulting contracts with?

Mr. COUGHLIN. Oh, yes, on an individual basis he can; yes. In terms of our ability to punch a button and pull up a list—

Senator PRYOR. What is the dollar figure? What are we spending today in the Postal Service for consultants?

Mr. COUGHLIN. I do not know offhand.

Senator PRYOR. Could the Contracting Officer supply that information for me?

Mr. COUGHLIN. The Procurement and Supply Department can, I am sure.

Senator PRYOR. Do not commit him to do that now, because I will tell you what, he cannot do it.

Mr. COUGHLIN. Well, we will provide you the best we can, Senator.

Senator PRYOR. Alright, let me tell you about one contract. You recently contracted with the consulting firm of Williams, Thacker and Rank to access the feasibility of establishing a Postal Service health benefit plan. This was called a funded task order arrangement, no fixed dollar amount. The contractor simply bills with requested services. Are you familiar with this contract?

Mr. COUGHLIN. Generally, yes.

Senator PRYOR. Well, you ought to be, because the unit price for labor on this particular contract could pay the consultant \$239 an hour for principals; \$140 an hour for consultants and \$76 an hour for clerical support. They could assign a secretary to this job, 40 hours a week times \$76; bill the poor postal patron in this country for all that.

Now, if you annualize these figures, this service could be billed, just for those services, \$475,000 a year, for a full-time principal, in addition to the other support. Do you have any comment on this? Is this good business?

Mr. COUGHLIN. Well, I will not profess to be an expert on contracting, but I do know this. I know our expectation is that we will not be using a principal anywhere near on a full-time basis under this contract, and we also expect the cost of the clerical support to be closer to \$13,000 on an annualized basis, which I think is reasonable.¹

Senator PRYOR. Alright, you have 2,200 people in L'Enfant Plaza?

Mr. COUGHLIN. Yes, sir.

Senator PRYOR. You have had a 15 percent increase in personnel. Do you not have anyone down there who can do this?

Mr. COUGHLIN. In terms of this particular area of study, the answer is no. The firm we have hired are real experts in the area of health benefits. And as the Postmaster General, I think, commented earlier, it is an area of real concern, not only to us, but to the private sector as well, in terms of the growing cost.

Mr. FRANK. Senator, we have not, as I understand it, had any responsibility for health care. That is exclusively the province of Office of Personnel Management. We make one phone call a year and ask what the increase in health benefit cost will be. And as our testimony indicated, I think we were told 16 percent 1 year ago, and it turned out to be 31 percent.

So we have no control, unfortunately, over health care costs. And what this study is designed to look at is whether we could or should. So I think it is understandable that we do not have the expertise in house—because we have never been permitted to be involved in health benefits.

¹ See p. 46 for information subsequently submitted.

Senator PRYOR. If I am not wrong, I think about 3 years ago you paid a consulting firm a massive amount of money to do a study on health benefits, am I correct?

Mr. COUGHLIN. We paid a firm to look at the possibility of developing a plan for our non-represented workers in the Postal Service; about 9,000 or 10,000 people. And they are essentially headquarters people or people in regional offices. After looking at the results of that study and the proposal at that time, we made a decision not to go forward with implementing our own plan, separate and apart from the Federal Employee Health Benefits Program.

What has happened in the interim—I think that was 1983 or 1984, as I recall—in terms of costs, has really driven us back to the idea that we cannot sit here idly and let this go on without attempting to make some change in the way the costs are going.

Mr. FRANK. This contract was put out for bid, of course. We had bidders on it, and this was the bid.

Senator PRYOR. Pardon me, Mr. Postmaster General. Which contractor? The one in 1983?

Mr. FRANK. I do not know about the one in 1983, the one currently; the one that you are asking the questions about.

Senator PRYOR. Mr. Frank, if I may once again shift to Mr. Coughlin, then I will take your statement. Mr. Coughlin, as you talk with your contracting officer about supplying information on a number of contracts as to the cost and the purpose of the contract, I would also ask that they look very, very carefully to see whether or not these were competitive contracts or sole-source contracts. I doubt they will be able to determine that. This is the frustration I have in the whole area of contracting out with some of these consulting firms.

I doubt they can tell you that, also. That is the frustration that I have in the whole area of contracting out with some of these consulting firms.

Mr. Frank, I interrupted you. I apologize.

Mr. FRANK. I think I am repeating myself.

Senator PRYOR. I think I am repeating myself also. We are not going to carry this much longer.

Mr. FRANK. Chrysler Corporation says they spend more per car on health care than they do on steel, and we are a little bit in an analogous situation. More than all of our savings from automation are going to medical costs. Our medical costs this year will be on the order of \$2 billion, and going up at a rate of about \$400 million or so per year. It is just absolutely not acceptable.

So these few hundred thousand dollars we are spending on this study I think are crucial to the future of the Postal Service.

Senator PRYOR. We had someone apply for a job recently in our Little Rock District Office, a fairly, seemingly competent individual. And our Administrative Assistant asked the individual, "What would you like to talk about in salary"?

And the response was, "I do not care what I get in salary, as long as I get some health benefits."

So we are really pretty quickly coming to that, and we know of the explosion in health benefit costs. It is not only true in your sector but in the private sector as well. And I am not smart enough to know what to do about it.

At a meeting of the Board of Governors early this week, the appointment of two new Assistant Postmaster Generals was announced; one for technology; one for public affairs. Both have previous postal experience in connection with the Electronic Computer Originated Mail Program (ECOM).

As we all remember, the plug was pulled on this program. It was rolled up, I understand, after about \$100 million expenditure and stopped. And although the concept has since been tried without much success in the unregulated private sector, some postal officials felt the program failed because of regulatory restrictions and congressional meddling.

Question: Does the re-employment or the promotion of former ECOM managers who were related to this failed program signal a new beginning for that failed effort, or something similar to it?

Mr. FRANK. Absolutely not. Not in any way. They are just outstanding people for the positions that we are hiring them for, and it is just part of their experience and part of their history. No, sir. Not in any way.

Senator PRYOR. Mr. Postmaster General, I must say that I have about 10 additional questions. In a few moments, I will have to go to the Senate Floor. But I am going to submit these questions in writing.

Senator Sasser could not be here this morning, but he has indicated that he will have a statement for the record.

As we started the hearing, I think once again Senator Stevens and I can reiterate our strong support for the Postal Service, but we are concerned. And I know that you are concerned. I can tell that you are concerned.

Mr. FRANK. You bet.

Senator PRYOR. One of my concerns, after this hour and one-half, is that I do not know what we are going to do about it. In fact, I think the projections, even though not very enthusiastic projections, about what we are going to do about the low rate, the non-rate of productivity increases, frankly, I see sort of a gloomy picture. And I hate to be gloomy.

I think that we are going to have to really look at the Postal Service. You are going to have to arm me—I am your lawyer; I am going to court for you—Senator Stevens is going into court for you. But you are going to have to arm us with the facts and certainly with the projections that we can sell your case.

We are going to have to sell your case, for example, on taking the Postal Service off budget. That is not going to be easy. They are going to say, "Well, if we put them off budget, they can go out and borrow all this additional money. Look what they have done with the additional money that they have already received."

It is going to make that case in court very, very difficult. And it is going to make it extremely hard to argue. So you are going to have to give us some arguing positions, and I do not think I have gotten many of them this morning.

Mr. FRANK. Senator, we do not have a choice. We have got to make the United States Postal Service efficient and effective. We do not have a choice. It is too important to this country. And when we get to that point, that means a lot of people are going to have to

change their existing attitudes and existing positions. It is going to be uncomfortable.

I would be happy to talk to you in public or in private about what needs to be done. I am not happy with the strictures that we have in labor negotiations. I would like to see more coordination and cooperation and speed with the Postal Rate Commission. I would like to develop more rapport with the mailing community. We have got our work cut out for us. That is why I took this job. I did not think it was going to be easy, and I have not been disappointed in that viewpoint.

Again, our costs are going up 7 percent, and our income and productivity, at best, 2 percent; that is a gap that the American people cannot continue to fund. And that is what they are doing. So we are going to have to make some major changes; and they are going to be uncomfortable.

Senator PRYOR. I should not ask you this question, but we will end the hearing with something on this order. You are not getting ready to ask for another increase in mailing rates, aren't you?

Mr. FRANK. That depends on what time frame. We have been on a 3-year time frame, and this is our present schedule. If our financial condition gets materially off of our budget, then we will have to reconsider. But right now, we are on schedule, on a 3-year schedule; which means, more or less, in the first quarter of 1991.

Senator PRYOR. Mr. Postmaster General, thank you. This has been a very educational hearing this morning. The hearing is adjourned.

[Whereupon, at 10:59 a.m., the Subcommittee adjourned, subject to the call of the Chair.]

FY 1988 RESULTS AS AFFECTED BY EARLY IMPLEMENTATION

(\$ millions)

	<u>PRC DECISION</u>	<u>USPS ACTUAL</u>	<u>DIFFERENCE</u>
Total revenues	35,124.9		
Early rate implementation (adjustment)	<u>900.0</u>		
Adjusted revenue	36,025.9	<u>35,938.8</u>	<u>- 86.1</u>
Total accrued costs	35,611.5	36,535.7	924.2
Net income	413.4	- 596.9	1,010.3

**RETURN ON INVESTMENT FOR CAPITAL
INVESTMENT IN FACILITIES**

	Projected	Actual
Springfield, MA	15.9	19.8
Salina, KS	8.9	7.8
Petaluma, CA	7.4	negative
Phoenix, AZ	6.0	negative
Potomac, MD	13.6	10.7
Bakersfield, CA	6.0	negative
Suburban, MD	15.7	negative
Reading, PA	11.3	13.0
Fort Worth, TX	2.9	4.1
Lakeland, FL	12.4	13.3
Knoxville, TN	12.2	0.8
Stockton, CA	5.1	negative
North Bay, CA	7.4	negative
West Palm Beach, FL	8.4	5.2

Source: Inspection Service Audits

STATEMENT OF POSTMASTER GENERAL ANTHONY M. FRANK
BEFORE THE SUBCOMMITTEE ON FEDERAL SERVICES,
POST OFFICE, AND CIVIL SERVICE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
UNITED STATES SENATE

April 7, 1989

Mr. Chairman and Senators:

Good morning. I'm delighted to be here with you as the subcommittee continues its oversight of the Nation's postal system in this bicentennial year of the United States Senate.

The statute which provides for this annual hearing says that its purpose is to give you such information as you desire on our budget, appropriations, and the printed Comprehensive Statement on Postal Operations which you received earlier this year. The emphasis is on responding to your questions and interests. So I will abbreviate my opening remarks with that in mind.

The Fiscal Year 1990 budget submission on the Postal Service, as reflected in the budget documents sent to the Congress by the outgoing Administration in January, contains an unprecedented element this year. Building on the budget reconciliation legislation of December 1987, the Office of Management and Budget has formally proposed, as a budgetary savings measure, to step into the internal management of the postal system. The proposal would set postal employees' pay increases and require unspecified improvements in the management

of such details as control of employee absences and the use of casual labor.

From our perspective, except for an unwise attempt to override existing labor contracts, there is nothing of substance in these proposals that would offer real savings achievable for the Fiscal Year starting this October. But they provide a backdrop for making two points.

First, we have to have positive change and constant improvement in this postal system. The American people expect and deserve to have services which will meet their evolving needs at reasonable prices. Whatever divisions there may be among those variously interested in the Postal Service, the differences can only be about means, not ends. The need to serve, to offer the public something better and better -- that's a nonpartisan, universal desire we can all share.

The second point is, in my view, there's no quick and easy way to achieve that end -- no magic spell. No one can expect to sit down and write a few words in a bill which would let the Postal Service accomplish its same job for the American people, in the year starting this October, for a billion dollars less cost. Life isn't that simple.

We must take the job seriously, and we do.

A universal postal system serving all communities is a part of this country's national heritage. We have the largest, most reliable, least costly mail system in the world. The Postal

Service does a pretty good job, and we have enough pride in what we do that we're determined to make the system work better.

Over the past year I think important progress has been made. A year ago we were responding to the successive distractions of a general rate increase and external budget reductions. We have worked hard to get ourselves more together internally as a Postal Service community moving in a common direction. As a result I think that morale is improved and we are now better able to address the progress that needs to be made.

We have framed our agenda to:

- expand the interval between rate adjustments;
- provide the best possible service to the American people; and
- establish a better relationship between labor and management.

Setting this agenda points our sights toward where we are going in the Postal Service but does not get us there. It is up to all of us who are hired to serve this organization, together, to move it in these directions.

We recognize that movement along these three paths at once requires a balance among potentially competing demands. But we are pushing ahead.

In seeking greater labor-management cooperation, many of our people across the country have had success working together to resolve differences and reduce the number of formal grievance proceedings, freeing more time for serving our customers. So far

this year, the grievance rate nationwide is down an average of 50 percent from last year, which is right on our goal for 1989.

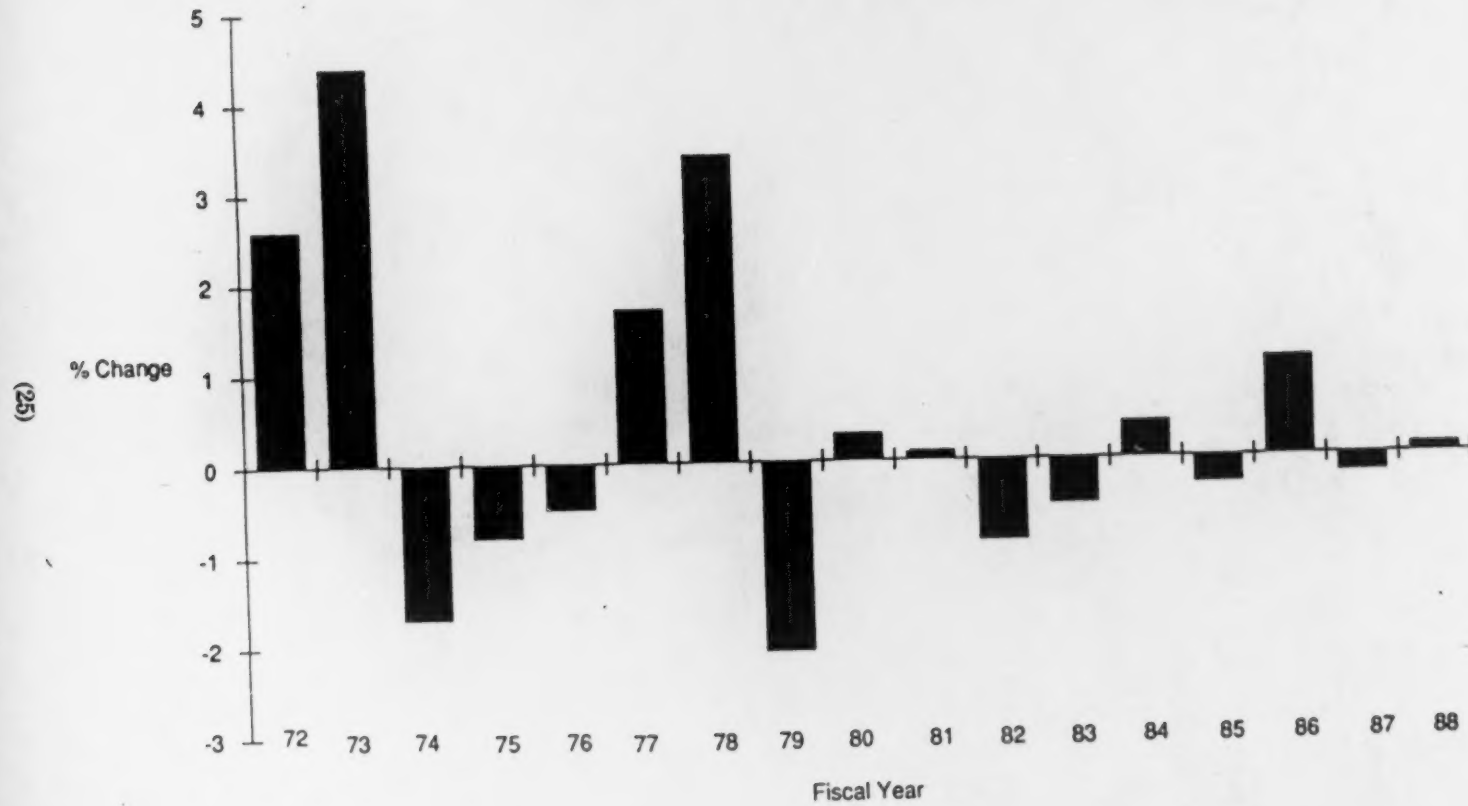
We have expanded our employee involvement process and started a management-by-participation initiative with the management associations. Bit by bit we intend to reshape the culture of the Postal Service to foster greater communication and take better advantage of our most important resource, over 800,000 men and women dedicated to serving the public.

To serve our customers better, we are making our services more convenient and accessible by putting stamps on consignment in grocery stores and other chains. In a number of places we've begun adding lobby directors to speak with customers coming into our post offices and help them transact their business more efficiently. We're also working to develop better external measurement systems to evaluate service performance for both First-Class Mail and third-class mail.

Stretching rate intervals will require improving productivity. In the Comprehensive Statement, we reported that "Total Factor" Productivity rose just one tenth of one percent in Fiscal Year 1988 from the previous year. So far this year, while we still anticipate that revenues will exceed expenses by a small margin, we have not done as well as we had planned. We are concerned about that, and have initiated an intensive review to identify what else needs to be done and to do it.

Moving toward the last decade of this century, the Postal Service is committed to an automation strategy which includes

Change in Total Factor Productivity (TFP)



APPENDIX

getting a bar code on virtually all mail by 1995. We know that the technologies for sorting mail automatically are sound and we're getting more and more of the equipment in place and on line.

Automation involves a major transformation in the way the Postal Service handles a myriad of small tasks which together succeed in directing more than 160 billion pieces of mail yearly to addresses in all parts of the United States and around the world. Until the complete system is available and in full operation, our local facilities and networks face a series of transitions and a complex process of learning and adjustment. We have no choice but to keep this airplane flying while we work to rebuild it.

The full savings of automation will not be captured until this transformation has been achieved. But we have a responsibility to our customers to manage the transition period as effectively as possible, to realize the benefits of this automated machinery and to continue to meet our service standards.

We appreciate the encouragement, wise counsel, and support which this committee consistently provides to the Postal Service. We particularly need your help on three legislative matters of immediate concern, none of which is new to you.

First, the Postal Service needs an appropriate increase in borrowing authority. Inflation has effectively drained away two thirds of the authority provided at the creation of the Postal

Service in 1970. Delay in many capital projects due to the 1987 budget reconciliation law has left us with an urgent need to accelerate capital commitments beginning in fiscal year 1990. To finance that activity, we need adjustments to the borrowing limits.

Second, I strongly support all efforts to provide us some additional flexibility on executive pay. We are at a point where it is unreasonable to expect key managers, many of them in the highest-cost areas of the country, to run immense operations involving tens of thousands of employees, and to take the risks and initiate the innovations that need to be made, without a greater salary or bonus opportunity than we can offer them. I respect what you are up against on Congressional pay. Still we need to do something about this, or the public business of this institution will inevitably suffer for it.

Third, the Postal Service does not belong in the unitary budget. We support and appreciate the strong momentum which has been built in the Senate for the legislation to correct this situation.

Thank you. I will be pleased to answer any questions.



GENERAL COUNSEL
Law Department
Washington, DC 20260 -1100

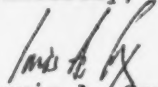
May 19, 1989

Honorable Ted Stevens
United States Senate
Washington, DC 20510-0201

Dear Senator Stevens:

Enclosed, per your request at the April 7 oversight hearing, is a draft bill along the lines you described, providing that franked mail would not be accepted by the Postal Service after the funds appropriated for payment by the Congress to the Postal Service for postage for the fiscal year have been exhausted.

Sincerely,


Louis A. Cox

Enclosure

101st Congress
1st Session

S. _____

To amend title 39, United States Code, to provide that franked mail may not be transmitted after the appropriation to pay the postage for a fiscal year has been exhausted.

IN THE SENATE OF THE UNITED STATES

Mr. Stevens introduced the following bill; which was referred to the Committee on _____

— A BILL

To amend title 39, United States Code, to provide that franked mail may not be transmitted after the appropriation to pay the postage for a fiscal year has been exhausted.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Franked Mail Amendments of 1989."

SEC. 2. ACCEPTANCE OF FRANKED MAIL LIMITED TO APPROPRIATION LEVEL

Section 3216(c) of title 39, United States Code, is amended to read as follows:

"(c) Payment under subsection (a) or (b) of this section shall be deemed payment for all matter mailed under the frank and

for all fees and charges due the Postal Service in connection therewith. If, at any time during a fiscal year, the Postal Service determines that the postage on and fees and charges in connection with matter mailed under the frank during that year have exhausted the full amount appropriated for payment to the Postal Service during that fiscal year under subsections (a) and (b) of this section, then no more franked mail may be accepted by the Postal Service during the remainder of that fiscal year unless additional funds are appropriated under subsection (a) or (b) of this section and paid to the Postal Service."

The following information is offered with respect to Senator Levin's inquiries concerning the nature of the specifications for the Postal Service's major automated mail processing equipment [April 7 transcript, pages 28 - 29]:

To restate the nature of the Postal Service's contracts for major automated mail processing equipment (including single line and multi-line optical character readers and bar code readers) briefly, this equipment has been purchased on the basis of performance observed in the course of the testing of prototype machines in postal facilities using live mail. The resulting contracts specify the performance results which the delivered machines are to achieve. When individual production units are delivered, they are subject to acceptance testing, usually for at least two weeks, to assure that they meet the throughput, error rate, readability and other performance specifications of the contract. Individual units are accepted only upon the successful completion of acceptance testing.

The Postal Service includes warranty provisions in its contracts when it is in our interest to do so, taking into account factors such as the likely cost of the warranty, the disadvantage to the Postal Service should the delivered equipment not perform, and the like. (Guidance in this regard is currently set out at section 2.2.4 of the USPS Procurement Manual, Publication 41, copy attached. Similar policy was previously expressed in section 1-318 of the Postal Contracting Manual.) Pursuant to

these policies, the Postal Service's contracts for major automated mail processing equipment have included a warranty of the equipment's performance in accordance with the specification for two years from the date of machine acceptance with one exception. (That exception is the latest procurement of bar code sorters from ElectroCom Automation (ECA). Since this purchase of 224 units was a follow-on to a previous purchase of 452 units which had presented operational problems only with regard to the clutch brake, the contract provided for a six-month warranty, except that the two-year warranty was retained for the clutch brake assemblies. Failed brake assemblies have been timely replaced at no charge by ECA consistent with the warranty.)

Automation equipment delivered under these contracts has performed in accordance with specifications. In no instance has the Postal Service found it necessary to take contractual action to enforce the warranty provisions of the contracts.

2.2.4

Warranties

a. A warranty clause should be used when it is in the Postal Service's interest to have a contractual right to assert claims regarding defective supplies or services after acceptance. A warranty clause allows the Postal Service additional time after acceptance to require correction of deficiencies or defects, reperformance, an equitable adjustment in the contract price, or other remedies. This period may begin at the time of delivery or at the occurrence of a specified event, and may run for a given number of days or months or until occurrence of another specified event. The value of a warranty clause depends upon the circumstances; its use, terms, and conditions are influenced by many factors. Warranty clauses therefore usually need to be tailored to fit individual purchases or classes of purchases.

b. A warranty clause does not limit any rights of the Postal Service under Clause 2-1, *Inspection—Fixed-Price*, or Clause 2-2, *Inspection—Non-Fixed-Price*. Because clause 2-2 allows the Postal Service to obtain the correction of deficiencies during and after contract performance, warranty clauses other than warranties related to computer software, technical data, and copyright (see chapter 9) should not normally be included in non-fixed-price contracts.

c. The decision to use a warranty clause or to include a warranty provision in a specification is made by the contracting officer. This decision may be made either for individual purchases or for classes of purchases. In deciding whether to use a warranty clause, the following factors should be considered:

1. Cost of the warranty (including the effect of a warranty on price competition and cost).
2. Criticality of meeting specifications.
3. Damage to the Postal Service that might be expected to arise in the event of defective performance.
4. Cost of correction or replacement, either by the contractor or another source, in the absence of a warranty.
5. Administrative cost and difficulty of enforcing the warranty.
6. Ability to take advantage of the warranty, as conditioned by shipping time, distance of the user from the source, and other factors.
7. Operation of the warranty as a deterrent against deficiencies.
8. The extent to which acceptance is to be based upon contractor inspection or quality control.
9. Whether, because of the nature of the items, the inspection and acceptance system would or would not be likely to provide adequate protection without a warranty.

2.2.4

10. Reliance on brand-name integrity.
 11. Whether a warranty is regularly given for a commercial component of a more complex end item.
 12. Criticality of the item for protection of employees.
 13. The stage of development of the item and the state of the art.
 14. Customary trade practices.
- d. Contractors normally include an estimate for warranty work in their price. Because the actual work required is speculative, the cost charged for warranty work may not be commensurate with the benefits derived. Contracting officers should carefully evaluate the cost of a warranty by—
1. Requiring alternate price proposals with and without warranty;
 2. Comparing the cost of a service contract providing similar protection against defects; and
 3. Requiring separate pricing for warranty work, when feasible.
- e. When a decision has been made to use a warranty clause, the contracting officer should consider a contractual requirement that the warranted items be marked as such or that notice of the warranty be otherwise furnished with the items. This will inform those who store, stock, and use the items that they are warranted and will encourage them to advise the contracting officer of any defects. The marking or notice need not state the complete warranty; a short statement that a warranty exists, its duration, and whom to notify if an item is found to be defective will normally be sufficient. In deciding whether to impose such a requirement, the contracting officer should take into account—
1. The feasibility of marking the items; and
 2. The cost in relation to probable benefit in the enforcement of the warranty.
- f. The terms of a warranty clause vary with the circumstances of the purchase, but the factors in subparagraphs f.1 through f.7 below must be considered.
1. The clause must state the warranty's duration. It may provide that the contractor will be liable for defects or nonconformance with contract requirements (a) existing at the time of delivery or, alternatively, (b) that develop before the expiration of a specified period or before the occurrence of a specified event.
 2. A warranty clause must include a specified period during which notice must be given to the contractor of any defects or nonconformance. The interest of the Postal Service normally will be protected if the notice period starts at the time of delivery or, if services are involved, upon acceptance by the Postal Service. In some cases, however, it may be necessary to start the period later. For example, if conformance of supplies cannot be determined until they are used, the period should not begin until the items are put to use; or if supplies are purchased in lots under sampling procedures and delivered in increments for storage, the period may begin when the supplies are put to use or at the time of the last delivery.
 3. If the Postal Service specifies the item's design and precise measurements, tolerances, materials, tests, or inspection requirements, the contractor's liability for defects or nonconformance should usually be limited to those in existence at the time of delivery.

2.2.4

4. If a contract contains performance specifications and design is of minor importance, the contractor's liability may extend to defects that may arise after delivery of the supplies or acceptance of the services. When appropriate, however, the warranty may be limited to defects or nonconformance existing at the time of delivery or acceptance.

5. Ordinarily, the right to return nonconforming supplies for correction or replacement should satisfy the Postal Service needs under a warranty; however, when the supplies are of such a nature (for example, perishable items) that correction or replacement is not an adequate remedy, the clause should provide that—

(a) The contracting officer may return the supplies to the contractor, dispose of them in a reasonable manner, or replace them with similar supplies; and

(b) The contractor will be liable for any costs incurred by the Postal Service.

6. When it can be foreseen that it will be impracticable to return an article for correction or replacement, because of the nature of its use or the cost of return (for example, when installed operating equipment only needs adjustment, and returning it would require substantial expense of removal from where it is installed), the clause should provide that the Postal Service may correct or require the contractor to correct the article in place at its location, at the contractor's expense.

7. When it is determined that a warranty for the entire item is not advisable, a warranty may be required for a particular aspect of the item that may need special protection (for example, components, accessories, parts, subassemblies, or packaging).

g. For purchases of commercial supplies or services, or construction, the solicitation may include a warranty clause that is standard or customary in the trade, or one that is substantially similar to and not in excess of a standard or customary trade warranty, or may accept the contractor's standard warranty. When commercial supplies or services are purchased for a special Postal Service use (a use to which they would not normally be put), the contracting officer should consider them not to be commercial, but obtained according to performance specifications.

h. Solicitations and contracts must include the following provisions and clauses:

1. When commercial supplies or services are being purchased and warranties are customary in the trade, the solicitation must include Provision 2-1, *Warranty Information*, and the contract must include Clause 2-7, *Incorporation of Warranty*.

2. When a warranty is to be required for noncommercial supplies or services, the contract must include Clause 2-8, *Warranty*, modified as needed (see, for instance, subparagraph f.6 above).

The following information is offered with respect to Senator Levin's inquiry concerning the synopsis of notices of noncompetitive purchases [April 7 transcript, p. 30]:

On March 10, 1989 the Procurement Policy Committee issued an interim policy notice (copy attached) directing that all solicitations for purchases over \$50,000, including noncompetitive purchases, be publicized by synopsis in the Commerce Business Daily. This policy was subsequently the subject of public notice in Postal Bulletin 21722 of April 27, 1989, (copy attached) and will be incorporated into the USPS Procurement Manual by its next Transmittal Letter.

March 10, 1989

Interim Policy

Number 1, PUBLICIZING PURCHASES

The Issue

Should we publish notices of upcoming noncompetitive purchases in the Commerce Business Daily?

Section 3.2.1 in the Procurement Manual suggests that publicizing noncompetitive purchases, or purchases restricted to approved sources, may serve no useful purpose. This provision has led to a number of inquiries from our own procurement people as well as from a number of outside commentators who maintain that publication may result in identification of additional sources or alternative approaches.

Discussion

Currently, our policy is to publicize competitive procurements above 50,000. We do so to make potential sources aware of requirements and to promote competition.

The same philosophy applies to noncompetitive procurements. Here too, it has been persuasively argued, publication may well yield additional sources, or acceptable alternatives that meet our needs.

Further, we are fully committed to visible integrity. One of the concerns expressed is that by failing to publicize noncompetitive procurement actions, we may give the appearance of acting along preconceived lines without any actual intent to secure input.

In recent correspondence with representatives from Congress, the Postmaster General indicated his commitment to "advance notice to the public" on all procurements of significance.

Resolution

Noncompetitive purchases and those from approved or prequalified sources, over \$50,000, should be publicized in the Commerce Business Daily in the same manner and subject to the same conditions as competitive procurements, as called for under Section 3.2.1 of the Procurement Manual.

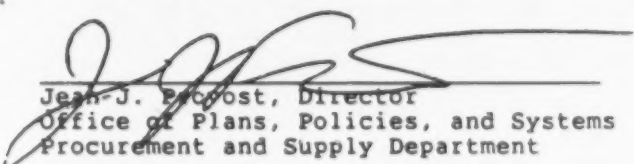
Accordingly, Section 3.2.1 of the Procurement Manual is amended by deleting the words "made using competitive procedures" in the first sentence, and the last sentence of this subsection, in its entirety.

Effective

This interim policy is effective immediately, and will remain in effect for six months from date, unless (1) it is disapproved by the Policy Committee; (2) it is superseded by an amendment to the PM; or it is extended for an additional period.

Filing

This *Interim Policy* should be filed so that it is readily available for use with the Procurement Manual and related handbooks for ease of reference. A subject index will be issued periodically.



Jean-J. Provost, Director
Office of Plans, Policies, and Systems
Procurement and Supply Department



postal bulletin

Published Since March 4, 1980

PB 21722—April 27, 1989—28 Pages

POSTAL BULLETIN

21722, 4-27-89, Page 3

Publication 41 Revision

Procurement Manual

The Procurement Policy Committee has adopted a policy requiring that all purchases using noncompetitive procedures, or from approved or prequalified sources, must be synopsisized in the *Commerce Business Daily*. Therefore, revise Publication 41, *Procurement Manual*, section 3.2.1.a, as follows.

In section 3.2.1.a, delete the words "made using competitive procedures" from the first sentence. Delete the last sentence in its entirety.

The new section 3.2.1.a should read:

3.2.1.a To make potential sources aware of Postal Service requirements and to promote competition, solicitations for all purchases over \$50,000 must be publicized, unless (a) precluded by urgency, (b) a lessor is providing construction under a lease, (c) the solicitation is for leased space and one of the exceptions at 11.4.2.c.1 applies, or (d) advance notice of sources sought were published in the market research phase of the procurement (see 2.1.2.c.11).

This policy change was made by Interim Policy No. 1, issued on March 3, 1989, and will be formally codified in the next Transmittal Letter to Publication 41. —Procurement and Supply Dept., 4-27-89.

The following additional information is offered with respect to Senator Pryor's inquiries about the Postal Service's contract with Williams, Thacker and Rank concerning health benefit plans [April 7 transcript, pp 50 -52]:

In 1984 the Postal Service contracted with Williams, Thacker and Rand to provide a study and information concerning a specification for a health plan that would have been an option in lieu of the different plans offered under FEHB and other study services related to insurance issues other than health benefits. While the total contract price was \$210,000, the cost of the health benefits study was \$72,000.

The Postal Service's current contract with Williams, Thacker and Rand has a wider scope than that of the 1984 study. This contract was awarded competitively. WTR will evaluate current health benefits including coverage versus cost and establish a data base for enrollee demographics and claims experience data. The consultant will also evaluate other related professional, actuarial, analytical and support services.

The contract is a time and materials (T&M) effort with established fully-loaded labor rates per labor category as follows:

<u>Labor Category</u>	<u>Hourly Rate</u>
Principals	\$239
Actuaries & Consultants	140
Technical Support	87
Administrative & Clerical Support	76

Services are performed under the contract by issuance of task orders which identify the work to be provided, and establish a dollar ceiling for each task which the contractor may not exceed without further Postal Service approval. The Postal Service Project Manager maintains contact with the contractor to monitor its performance.

The contract has three phases. The objective of Phase I is to investigate the feasibility of establishing a health care program or other alternatives to provide health care benefits for Postal Service employees. Phase II may require the development of a health plan design for Postal Service approval, and the provision of services involved with obtaining an insurance carrier or a third-party administrator through competitive processes. Phase III may involve the provision of the services required to implement successfully the approved health plan.

The contract is currently in Phase I, for which the estimated cost is approximately \$133,000, and which is expected to be extend until July 30, 1989. Any decision to proceed to the later phases and any approvals of alternative health benefit plans will be consistent with the Postal Service's obligation to bargain and consult with the with labor and management organizations representing our employees.

POSTAL RATE COMMISSION

Washington, D.C. 20268-0001

Office of the Chairman

March 28, 1989

The Honorable David Pryor
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Senator Pryor:

Attached is the Postal Rate Commission staff study undertaken in response to the request in your letter of January 23, 1989. You posed four questions concerning the OCR/barcode system. Briefly summarized, our findings are as follows:

1. What was the impact of the OCR/barcode system on the most recent rate change?

The Commission relied on Postal Service estimates of savings from the OCR/barcode system in determining the revenue requirement for the test year (FY 1989). The Service estimated direct cost reductions in FY 1989 of about \$500 million or about 1/2 cent per piece of letter mail. This does not include indirect cost savings.

2. What was the impact of the OCR/barcode system on the fiscal performance of the Postal Service during fiscal year 1988?

The Postal Service estimated a saving of 17,222 work years (\$570 million) -- over half of which were OCR/barcode system related -- for FY 1988. Actual results for FY 1988 exceeded the Service's total work years estimate by far more than 17,222 work years. This provides circumstantial evidence that the work year savings goals for the OCR/barcode system were not achieved. While it is possible that the goals were nonetheless met, this would mean that work year growth in other areas more than offset OCR/barcode system savings.

3. Can you detect any improvements in postal costs since the inception of the OCR/barcode system in 1983?

The short answer is no. We used Postal Service cost system data to analyze cost changes from FY 1982 through FY 1987 (the last year for which cost data are now available). There was no reduction in the sorting costs of the affected mail during this period.

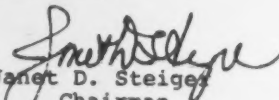
4. Can you estimate the impact of the OCR/barcode system on Postal Service labor productivity and total factor productivity since 1983?

Total Factor Productivity (TFP) growth in the period FY 1983 through FY 1987 averaged 0.1 percent which is less than the average annual TFP increase of 0.3 percent since Reorganization. In 1987 TFP growth was negative. Thus, it appears either that automation is currently having no positive impact on productivity or that any gains are being more than offset elsewhere in the system.

The Postal Service offered to assist the Commission in preparing this response, and is currently gathering the data (otherwise unavailable) which we requested. In the interest of expedition, we are submitting the report at this time. If there are any significant changes in our findings after review of Postal Service data, we will update this response.

If you have any further questions concerning the study, please don't hesitate to contact me.

Sincerely,


Janet D. Steiger
Chairman

POSTAL RATE COMMISSION
Washington, D.C.

STAFF STUDY ON
THE POSTAL SERVICE
OCR/BARCODE SYSTEM
IN RESPONSE TO
REQUEST OF SENATOR PRYOR

March 28, 1989.

INTRODUCTION

This study was performed in response to a request from Senator David Pryor, Chairman of the Senate Subcommittee on Federal Services, Post Office & Civil Service. In a letter to the Postal Rate Commission Chairman dated January 23, 1989, he posed four questions concerning the Postal Service's OCR/Barcode System.

- (1) What was the impact of the OCR/barcode system on the most recent rate change?
- (2) What was the impact of the OCR/barcode system on the fiscal performance of the Postal Service during fiscal year 1988?
- (3) Can you detect any improvements in Postal Costs since the inception of the OCR/barcode system in 1983?
- (4) Can you estimate the impact of the OCR/barcode system on Postal Service labor productivity and total factor productivity since 1983?

BACKGROUND

The Board of Governors of the Postal Service first approved the purchase of automated mail sortation equipment in December 1980. Delivery of the equipment began approximately two years later and continued through 1984. This initial deployment, referred to as the Phase I program, consisted of 252 optical character readers (OCRs) and 248 barcode sorters (BCSs). The Governors' approval was based upon an economic analysis performed by the Service which indicated a return on investment (ROI) of 48.5 percent if the equipment were used in conjunction with large volumes of customer supplied ZIP + 4 coded mail. The analysis also showed an ROI of 22 percent if the automated equipment were used with the five-digit Zip Code.

The higher ROI with ZIP + 4 occurred because the automated equipment could then be used for all letter mail sortation operations. Without ZIP + 4 the automation could be used for initial and intermediate sortations but not for the more costly

incoming secondary operation,¹ the sort to carrier routes and box sections.

The Phase I procurement involved single-line OCRs which are capable of reading only the bottom line of the letter's address. A barcode is applied based on the information contained therein. Thus a nine-digit barcode, necessary for automated incoming secondary processing, can not be sprayed on by the OCR unless the bottom line of the address includes a mailer-applied ZIP + 4 code.

Multi-line OCRs, on the other hand, have the capability of reading all lines in the address and, based on information contained in the OCR's computer directory, spraying on a nine-digit barcode. Therefore a nine-digit barcode is applied even if the mailer has omitted a full ZIP + 4 code from the address.

The Phase II program, approved by the Board in 1984, allowed for the purchase of 406 single-line OCRs and 456 BCSs. Deployment began in 1986 and is scheduled to continue through 1989.

In reality customer use of ZIP + 4 has been characterized by a slow growth that is far behind the initial and various revised volume estimates presented by the Service over the years. As a result the Service has generally not been able to employ the automated equipment for the incoming secondary sortation using the single line system. Consequently, the ZIP + 4 program has not operated as was originally envisioned by the Service.

Early in 1987 the Board approved a plan to upgrade the Phase II OCRs to multi-line read capability. Conversion began approximately a year later and will continue through 1989. The Service is currently involved with plans to purchase another quantity of multi-line OCRs. Approval for this project was given at the December 1988 Board meeting.

¹ Incoming secondary sortation is more costly because it requires more employee training and is often a manual operation.

An automation status briefing was presented to the Governors during the February 1988 Board meeting. At that time it was noted that the Postal Service had spent a total of about \$757 million on automation. The presentation indicated that the Service's original economic projections for the Phase I equipment, the only evaluation possible as of early 1988, had been achieved in practice. According to the briefing, additional labor costs of \$750 million, representing 23,000 work years, would have been incurred in FY 1987 absent the automation.

Further information was recently provided at the March 1989 Board meeting. A briefing at that meeting on capital investment results indicated that the Service's Phase I deployment achieved a 22 percent ROI, its original target for five-digit mail. No mention was made of the higher ROI for ZIP + 4 mail. The briefing also indicated that the Phase II single-line deployment achieved a 28 percent ROI, just short of the 32 percent ROI the Service says it originally planned.

SUMMARY TABLE OF OCR/BCS DEPLOYMENT

Phase I	1983-1984	242 single-line OCRs	248 BCSs
Phase II	1986-1989	406 single-line OCRs	456 BCSs
Phase IIA	1988-1989	upgrade 406 Phase II OCRs to multi-line	224 BCSs

QUESTION (1):

What was the impact of the OCR/barcode system on the most recent rate change?

RESPONSE:

The most recent rate case, Docket No. R87-1, addressed cost reductions which the Postal Service anticipated would be achieved through the use of OCR/barcode technology. In that Docket, the Service used FY 1986 actual cost data from which to estimate FY 1987, FY 1988 and FY 1989 costs.² The rates that the Commission recommended were designed to recover estimated costs in FY 1989.

Table One displays the work years (and their associated dollar value) that the Postal Service expected to save through implementation of all cost reduction programs and those that it expected to save through the OCR/Barcode cost reduction programs. Since each year's cost reductions reduce the base from which the next year's costs are estimated, the annual savings are cumulative. Thus, in the year for which rates were designed to cover costs total estimated costs were reduced by \$492 million. This estimated cost reduction, in turn, caused the revenue provided for contingencies to be reduced by \$17 million.

Therefore, the PRC recommended rates that were designed to recover revenues that were at least one-half billion dollars less than they would have been if we had not assumed that the OCR/barcode technology would be implemented. This amounted to a cost savings of approximately one half cent per piece of First-Class Mail. This estimate of savings also includes only so called "direct" savings and does not reflect the supervisory and other savings that would follow reductions in clerk and mailhandler work years.

² In November of 1987 the Service presented a rebuttal witness whose testimony updated financial information and thus revised some cost estimates for FY 1987, FY 1988 and FY 1989.

TABLE ONE
USPS COST REDUCTION PROGRAMS
DOCKET NO. R87-1
(Work years)

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
TOTAL ALL PROGRAMS	-5,732	-17,222	-7,983
OCR-II	-720	-8,444	-923
Multi-Line OCR	<u>0</u>	<u>-312</u>	<u>-3,700</u>
TOTAL OCR	-720	-8,756	-4,623
CUMULATIVE OCR	-720	-9,476	-14,099
	(Dollars)		
Value of Work Year	\$31,079	\$33,074	\$34,900
Value of Cost Reduction Savings (Millions):			
TOTAL ALL PROGRAMS	\$178.1	\$569.6	\$278.6
OCR-II	22.4	279.3	32.2
Multi-Line OCR	<u>0</u>	<u>10.3</u>	<u>129.1</u>
TOTAL OCR	22.4	289.6	161.3
CUMULATIVE OCR SAVINGS	22.4	313.4	492.1

QUESTION (2):

What was the impact of the OCR/barcode system on the fiscal performance of the Postal Service during fiscal year 1988?

RESPONSE:

Although data are not available to directly calculate the impact of the OCR/barcode system on the Postal Service's FY 1988 financial results, available data supports an inference that none of the savings anticipated from the OCR/barcode system have been captured.

In the most recent rate case the Postal Service claimed that it would save a total of 17,222 work years valued at \$570 million during FY 1988 through the implementation of various cost reduction programs.³ Relying on these savings, the Service estimated in its rate request that total work years in FY 1988 would increase by 3,907 or one half of one percent (0.5%) over FY 1987. But actual FY 1988 work years appear to have increased by 24,814, or 3.1 percent over FY 1987 as Table Two shows.

³ Library Reference USPS-LR-E-29, submitted by Postal Service financial witness Burditt in Docket No. R87-1, shows 17,222 work years saved in FY 1988 through cost reduction programs. Since a work year for FY 1988 is valued at \$33,074, the resultant savings are \$570 million.

TABLE TWO
COMPARISON OF USPS WORK YEARS
USPS REQUEST VS. ACTUAL

	1987	1988	Difference	
			Work Years	Percent
USPS Request	794,013	797,920	3,907	0.5
Actual	805,085	829,899	24,814	3.1

	1988	1989	Difference	
			Work Years	Percent
USPS Request	797,920	790,373	- 7,547	-0.9
Actual	829,899	840,688 Est. ⁴	10,789	1.3

From Table One it can be seen that the OCR/barcode system accounted for over one half of the cost reduction savings estimated for FY 1988.⁵ Since the FY 1988 increase in actual work years (24,814) exceeds the Service's estimates by more than the total targeted savings (17,222), it is reasonable to conclude that the full OCR-related savings expected were not realized.⁶

The failure to achieve cost reduction plan savings appears to be continuing in FY 1989. As Table One shows, the Service

⁴ The FY 1989 actual is estimated by assuming the 1.3 percent growth experienced in the first 20 weeks will continue for the remaining 32 weeks of FY 1989.

⁵ OCR-II savings of 8,444 work years and Multi-Line OCR savings of 312 work years divided by the entire cost reduction savings of 17,222 work years = 51%.

⁶ The Postal Service should have realized a surplus of approximately \$0.4 billion in FY 1988 given its early rate implementation, if it had achieved its cost reduction plans. Final results were \$1 billion below what they should have been (a loss of \$597 million was reported). The failure to achieve the cost reductions appears to account for far more than half of the \$1 billion swing. This analysis does not specifically identify volume changes because projected and actual volumes are roughly the same and, thus, do not affect the results.

projected further cost reduction program savings of 7,983 work years valued at \$279 million in FY 1989.⁷ The 0.9 percent decrease in work years for FY 1989 over FY 1988 projected in the Postal Service request resulted, in large part, from the inclusion of cost reduction program savings. The OCR/barcode system accounted for \$161 million, or 58 percent, of these estimated savings.⁸

Actual experience for the first five accounting periods (a total of twenty weeks) shows work hours have increased 1.3 percent over the same period in FY 1988 -- not the 0.9 percent decrease anticipated.⁹

In view of the widespread deployment of OCRs and barcode sorters the Service's apparent failure to achieve the planned cost reductions in both FY 1988 and FY 1989 is troubling. The Postmaster General at the January, 1989 Board of Governors meeting reported:

In February of last year, we initiated deployment of multiline optical character readers and we plan to have 406 in place in over 170 facilities by May. So that's almost one a day that we deployed.

In 1988, we also substantially increased the number of bar code sorters in the system from 490 to 667, an increase of 36 percent.

Although the planned installation of the OCR equipment, which underlies the cost reduction program savings, has been

⁷ 7,983 work years saved x \$34,900 per work year.

⁸ Multi-Line program savings of 3,700 work years + OCR-II savings of 923 work years all multiplied by \$34,900. This amounts to 58% of the savings (3700+923)/7,983.

⁹ It must be remembered that FY 1988 work years were significantly inflated. For all of FY 1988 work years were four percent over target and were likely to have been much the same for the first twenty weeks of FY 1988.

implemented, the savings have yet to be reflected in reduced work years or labor expense.

The recently released Budget of the United States Government for FY 1990 reflects the Postal Service's current work year estimates for FY 1989. That document shows that the Service anticipates an increase in work years for FY 1989 of less than 0.1 percent over FY 1988, rather than the 0.9 percent decrease estimated in Docket No. R87-1.

As we have noted, however, work years through Accounting Period 5 of FY 1989 are running 1.3 percent above FY 1988. From this we may infer either that the savings from OCR programs have not yet been achieved, or, if they have been realized, rather large numbers of unplanned increases in work years are occurring elsewhere throughout the Postal Service.

QUESTION (3):

Can you detect any improvements in postal costs since the inception of the OCR/barcode system in 1983?

RESPONSE:

To answer this question, we analyzed the Postal Service's costs of sorting nonpresort First-Class letter-shaped mail by clerks and mailhandlers. This analysis indicates that for the period FY 1982 to FY 1987 the estimated unit (or per piece) cost of sorting this mail, after adjusting for wage levels, has remained relatively constant. These wage-adjusted unit cost figures are presented below:¹⁰

**Clerk and Mailhandler Unit Costs
of Sorting Nonpresort First-Class Letter-Shaped
Mail After Adjustment for Wage Levels**

FY 1982	4.872¢
FY 1984	4.832
FY 1985	5.067
FY 1986	5.081
FY 1987	4.978

We selected FY 1982 as the base period for the study. The Postal Service first began to deploy its Phase I automated equipment early in FY 1983. Therefore, the costs for FY 82 represent the costs of processing mail on the system in effect prior to the deployment of automated equipment.

The above analysis focuses on sortation (or distribution) costs for letter-shaped mail, since these are the operations involving the automated equipment. It excluded delivery, transportation, acceptance, platform and mail preparation costs that are not likely to be affected by automation. Cost data for

¹⁰ Data permitting an analysis of FY 1983 costs were not available to us since FY 1983 is not included in any rate case filing, and FY 1988 data have not yet been released by the Postal Service.

distribution operations are based on the extensive work sampling required by the Service's on-going In-Office Cost System (IOCS). The IOCS is the primary cost system used for the development of the Service's proposed rates and the Commission's recommended rates for the various subclasses of mail in rate proceedings.¹¹

Our study focuses on nonpresort First-Class letter mail since this is the prime pool of mail for processing on the automated equipment. Accounting for over 50 billion pieces of mail in FY 1987, this is the mail that should benefit the most from automated processing, since it typically undergoes multiple sortations within the Postal Service. Mail presorted by mailers, on the other hand, largely avoids internal processing within the Postal Service by clerks and mail handlers.

Our analysis reflects the effects of ZIP + 4 nonpresort mail -- not presort ZIP + 4 mail -- on average distribution costs. In theory, presort ZIP + 4 mail could benefit from automation of one operation, the incoming secondary distribution (the sort to carrier routes and box sections). Presort ZIP + 4 volume, however, has grown slowly, much less than the Service had predicted. Moreover, what volume did materialize generally did not receive automated incoming secondary sortation in the time period included in this analysis.¹² Almost all automated processing involved nonpresort letter-shaped mail in the period FY 1983 - FY 1987.

We performed an additional analysis in an effort to identify and describe the most favorable case for the automation program. Some First-Class nonpresort mail moves to the presort category

¹¹ IOCS results are presented in the Service's annual LIOCATT reports which show clerk and mailhandler costs disaggregated by operation, subclass, and shape.

¹² An October 1987 GAO Report (GAO/GCD-88-5, October 16, 1987) shows that only about a third of ZIP + 4 discounted mail was processed on automated incoming secondary operations as of the middle of FY 1987. The proportions are considerably smaller prior to FY 1987.

each year, as mailers are able to meet the requirements (e.g., volume, density) for entry into presort. Some argue that it is relatively low cost metered nonpresort mail that migrates to presort, causing the average cost of nonpresort mail to rise over time, for reasons not related to the automation program. Adjusting the above unit costs to take migration into account produces the cost figures shown below:

Unit Costs After Adjustment for Migration

FY 1982	4.872¢
FY 1984	4.743
FY 1985	4.932
FY 1986	4.905
FY 1987	4.779

Both of the above average unit cost comparisons reflect only sortation labor costs. They do not reflect supervisory costs. Nor do they account for equipment depreciation, equipment maintenance, equipment installation, or interest expense on the investment. Data that would allow these factors to be taken into account are not available to the Commission. It is generally acknowledged, however, that these costs for the automated equipment are higher than those for other equipment.

In both of the above analyses, we consider the essentially level trend of unit costs over the FY 82-87 time period to be of more significance than the estimate for any particular year or relatively minor changes in costs from year-to-year. In this regard, we recognize that our results appear to differ from those that the Postal Service has announced in the past. The Service claims that FY 1987 costs would have been \$750 million higher without any automation. This amounts to between 0.75 and 1.5 cents for each letter-shape piece of mail depending upon which

classes of mail the Postal Service used in its calculation.¹³
The results of our analyses do not reveal such savings.

These results confirm recent comments of the Postal Service. At the February 1989 Board meeting management indicated the Service is experiencing relatively low volume growth and is having difficulty "managing down" in the short run. It was also acknowledged that the introduction of automated equipment, which changes mail flows and processing patterns, has complicated matters. Installing this equipment is requiring a great deal of management attention, according to the briefing.

Calculations underlying the above unit cost figures are presented in the attached Appendix.

¹³ Since the Commission does not know the basis of the Postal Service calculations, we can calculate only a range of unit cost savings.

QUESTION (4):

Can you estimate the impact of the OCR/barcode system on Postal Service labor productivity and total factor productivity since 1983?

RESPONSE:

In 1985, the Postal Service adopted the concept of Total Factor Productivity (TFP), to complement the financial and service measures of its performance. TFP is the ratio of total postal output or workload to total postal input or resources used. Total output (workload) is mail volume weighted by the relative amount of work required for different types of mail. It also includes the workload arising from the growth in delivery points. Total input is the labor, materials, and capital (including automation equipment) consumed in the provision of postal services. The necessary aggregation of multiple outputs and inputs requires a special procedure to ensure consistent comparisons among diverse outputs and inputs, and to comply with the economic theory of the firm.¹⁴

The rate of growth in TFP is a descriptive statistic widely used to evaluate industry performance¹⁵ and is calculated as the

¹⁴The Postal Service achieved a significant improvement in its methods by embracing the concept of TFP. Prior to 1985, the Postal Service computed productivity as the ratio of total mail volume to the number of postal employee work years. Referred to as "gross productivity", this simplified measure of postal productivity had three main limitations. First, every piece of mail was treated the same, i.e., a letter was considered to require the same work as a parcel and a nonpresorted piece of mail the same as a presorted. Second, this measure did not account for the consumption of other inputs, like capital and materials, in the provision of postal services. Third, this measure did not take into account the additional non-volume workload caused by growth in the number of delivery points.

¹⁵The Bureau of Labor Statistics uses the Multi-Factor Productivity (MFP), a concept similar to TFP, to measure productivity performance in virtually all sectors of the U.S. economy.

difference between the rate of growth of total output and the rate of growth of total input.

The following table shows the annual growth rates of postal output, input, and TFP, for the period FY 1982 through FY 1987 as they have been reported by the Postal Service. The table includes output, input, and TFP indices, for easy reference. Because the Postal Service started deploying the automated equipment at the beginning of FY 1983, FY 1982 was selected as the base year for calculating the output, input and TFP indices.

Total Factor Productivity (TFP)
(FY 1982 - FY 1987)

FY	Growth in Total Output (%)	Output Index	Growth in Total Input (%)	Input Index	Growth in TFP (%)	TFP Index
1982	-0.8 ^a	1.000	0.1 ^a	1.000	-0.9 ^a	1.000
1983	1.6 ^a	1.016	2.1 ^a	1.021	-0.5 ^a	0.995
1984	5.5 ^a	1.074	5.1 ^a	1.075	0.4 ^a	0.999
1985	3.6 ^b	1.113	3.9 ^b	1.117	-0.3 ^c	0.996
1986	3.2 ^b	1.149	2.1 ^b	1.141	1.1 ^d	1.007
1987	2.8 ^b	1.182	3.0 ^b	1.176	-0.2 ^e	1.005

^a Docket No. R87-1, Library Reference USPS-LR-E-121, Tables IX-2 and IX-5.

^b Productivity Measurement, A presentation by Comer S. Coppie, SAPMG, to the U.S. Postal Service Board of Governors, April 5, 1988. The growth rates are estimates based on the charts at pages 12 and 15.

^c Comprehensive Statement on Postal Operations, Fiscal Year 1985, at 42.

^d Comprehensive Statement on Postal Operations, Fiscal Year 1986, at 37.

^e Comprehensive Statement on Postal Operations, Fiscal Year 1988. The growth rate is estimated based on the chart at page 35.

As shown in the table, the period FY 1983 through FY 1987 was characterized by high output growth (18.2 percent cumulative, 3.3 percent average annual).¹⁶ This provided the Postal Service with an opportunity for productivity gains. Despite the deployment of automated mail processing equipment, however, input growth (17.6 percent cumulative, 3.2 percent average annual) kept pace with output growth, resulting in stagnant TFP. The cumulative growth of the TFP for the five-year period was 0.5 percent. This constitutes an average annual growth of TFP of only 0.1 percent, which is considerably less than the average annual TFP increase of 0.3 percent since Reorganization.

It seems that the accelerated total input growth during the period of FY 1983-1987 was due predominantly to increases in labor input. For example, in FY 1984, capital grew by 5.6 percent, labor by 5.2 percent and materials by 4.8 percent. Taking their relative factor shares into account, we find that of the 5.1 percent growth in total input, labor was responsible for contributing 4.1 percentage points, materials 0.7 percentage points, and capital 0.3 percentage points. Therefore, any efficiency gains expected from automation were offset mainly by labor increases and, to a lesser degree, by increases in materials.¹⁷ This may be contrasted with other periods, such as

¹⁶Volume (pieces of mail) and output (workload) growth since 1963 can be separated into four periods of time. High volume and workload growth occurred together in the sixties, and together became sluggish in the early to mid-seventies. Renewed high volume growth in the late seventies to early eighties, however, was accompanied only by slow workload growth, because of the conversion of single-piece mail to presorted mail. Since 1983, with the conversion to presort mail completed, high volume and workload growth have occurred together for the first time since the sixties. (See Productivity Measurement, A Presentation by Richard J. Strasser, Jr., APMG, Planning Department, to the U.S. Postal Service Board of Governors, June 7, 1988, p. 5.)

¹⁷The productivity of labor per se is not presented here because we have not yet received the data necessary to calculate it from the Postal Service. That figure, however, would indicate systemwide labor productivity, not mail processing labor

FY 1971-1973, where high growth in capital deployment was accompanied by low increases or reductions in the inputs of labor and materials

FY	Growth in Capital Input ¹⁸ (%)	Growth in Labor Input ¹⁸ (%)	Growth in Materials Input ¹⁸ (%)
1971	13.2	.2	.5
1972	10.7	-2.0	-7.4
1973	5.1	-2.8	-5.1

The results were remarkable gains in TFP

FY	Growth in Total Output ¹⁹ (%)	Growth in Total Input ¹⁹ (%)	Growth in TFP ¹⁹ (%)
1971	1.4	.6	.8
1972	0.3	-2.3	2.6
1973	1.6	-2.8	4.4

This implies that a large capital deployment must be accompanied by tight management of labor in order to produce substantial gains in TFP, particularly in periods of sluggish volume growth.

In summary, we cannot detect any significant impact of the mail processing automation program on TFP up through FY 1987. This runs counter to reasonable expectations for a systemwide conversion to a radically improved processing technology. Productivity analysis cannot directly identify whether this

productivity. A productivity index for nonpresorted letter mail distribution would be a more direct indicator of the impact of the automation program. The response to Question (3) above, provides an indication of mail processing labor productivity for nonpresort letter mail.

¹⁸ Docket No. R87-1, Library Reference USPS-LR-E-121, Table VIII-2.

¹⁹ Docket No. R87-1, Library Reference USPS-LR-E-121, Tables IX-2 and IX-5.

apparent lack of impact is due to a technical failure of this new technology to operate as predicted, or to an offsetting decline in efficiency in other areas of postal operations. The unexpectedly high rate of growth of the labor input that has accompanied the automation program suggests, however, that less efficient management of the labor input has offset whatever gains in TFP might have been achieved by the automation program.²⁰

²⁰In the seventeen years since the Reorganization, relatively significant TFP increases were noted in only five years (FY 1972, 1973, 1977, 1978 and 1986). In all other years, TFP remained essentially flat or declined.

APPENDIX
Page 1 of 5

DEVELOPMENT OF CLERK AND MAILHANDLERS UNIT DISTRIBUTION COSTS
FOR FIRST-CLASS NONPRESORT LETTER-SHAPED MAIL

	(1) Total Direct Distribution Costs ¹ (000)	(2) Nonpresort Letter- Shaped ² Volume (000)	(3) Unit Direct Cost ³	(4) Overhead Factor ⁴	(5) Unit Direct and Overhead ⁵ Cost
FY '82	\$1,883,205	45,386,259	4.149c	1.174	4.872c
FY '83		44,875,506			
FY '84	2,126,988	46,912,915	4.534c	1.173	5.318c
FY '85	2,356,392	48,374,095	4.871c	1.188	5.787c
FY '86	2,383,443	49,494,211	4.816c	1.208	5.817c
FY '87	2,447,317	50,354,071	4.860c	1.216	5.910c

	(6) C & MH Productive Hourly Rate ⁶	(7) Index with FY '82 as Base ⁷	(8) Without Migration Adjusted Unit Cost ⁸	(9) Migration Factors ⁹	(10) With Migration Adjusted Unit Cost ¹⁰
FY '82	\$14.4961	1.00000	4.872c		4.872c
FY '83	15.4034	1.06259		1.01211	
FY '84	15.9544	1.10060	4.832c	1.01868	4.743c
FY '85	16.5572	1.14218	5.067c	1.02730	4.932c
FY '86	16.5963	1.14488	5.081c	1.03592	4.905c
FY '87	17.2098	1.18720	4.978c	1.04162	4.779c

¹ Appendix p. 2.

² Appendix p. 3.

³ Col. 1 divided by Col. 2.

⁴ Represents nonproductive C & MH time. Developed from Annual Cost Segments and Components Reports, Segment 3, (Col. 1 + Col. 2) divided by Col. 1.

⁵ Col. 3 x Col. 4.

⁶ Developed from Annual Payroll Hours Summary Reports.

⁷ Col. 6 indexed with FY '82 as base.

⁸ Col. 5 divided by Col. 7.

⁹ App. p. 5.

¹⁰ Col. 8 divided by Col. 9.

FIRST-CLASS NONPRESORT LETTER-SHAPED CLERK AND
MAILHANDLER DIRECT DISTRIBUTION COSTS BY OPERATION

(\$000)

	Outgoing Primary (02)	Outgoing Secondary (03)	Incoming Primary (04)	Income Secondary (05)	Outgoing and Incoming (06)	TOTAL
FY '82	412,391	122,931	311,095	665,095	371,693	1,883,205
FY '83						
FY '84	389,785	90,043	326,219	835,995	484,946	2,126,988
FY '85	393,693	96,420	360,691	941,170	564,418	2,356,392
FY '86	374,118	58,458	346,148	969,332	605,387	2,383,443
FY '87	387,141	82,523	370,884	991,900	614,869	2,447,317

Sources: Annual LIOGATT Reports

DEVELOPMENT OF FIRST-CLASS
NONPRESORT LETTER-SHAPED VOLUME

	(1) First-Class ¹ Nonpresort Total Volume (000)	(2) First-Class ² Letter-Shaped Volume as Percentage of Total First-Class	(3) Index of ³ Col. 2 (FY '82 as Base)	(4) Percentage ⁴ Nonpresort That Is Letter- Shaped	(5) First-Class ⁵ Nonpresort Letter- Shaped Volume (000)
FY '82	48,585,996	94.590%	100.000%	93.414%	45,386,259
FY '83	48,054,812	94.560	99.968	93.384	44,875,506
FY '84	50,267,248	94.502	99.907	93.327	46,912,915
FY '85	51,930,838	94.323	99.718	93.151	48,374,095
FY '86	53,188,698	94.226	99.615	93.054	49,494,211
FY '87	54,159,886	94.144	99.528	92.973	50,354,071

¹ Annual Cost and Revenue Analysis Reports.

² Weighted average daily volumes developed from Quarterly Origin-Destination Information System Reports.

³ Col. 2 divided by FY '82, Col. 2 figure.

⁴ FY '82 volume percentage developed from FRC R84-1 Opinion, App. F, p.3. Subsequent years developed by multiplying Col. 3 times FY '82 Col. 4 figure.

⁵ Col. 1 times Col. 4.

DEVELOPMENT OF MIGRATION FACTORS
FOR ALTERNATIVE ANALYSIS

	(1) Total First- ¹ Class Volume (000)	(2) Percentage Change ² over FY '82	(3) Letter- Shaped ³ Volume (000)	(4) If Letter- Shaped Grew ⁴ at Same Rate as Total Volume (000)	(5) Migrated ⁵ Volume (000)
FY '82	59,681,666	---	45,386,259	-----	-----
FY '83	61,410,273	2.896	44,875,506	46,700,817	1,825,311
FY '84	65,577,826	9.879	46,912,915	49,870,126	2,957,211
FY '85	69,477,044	16.413	48,374,095	52,835,373	4,461,278
FY '86	73,997,116	22.311	49,494,211	55,512,291	6,018,080
FY '87	75,539,213	26.570	50,354,071	57,445,486	7,091,415

C & MH
DISTRIBUTION
UNIT COSTSOURCE

(1) Nonpresort Letter-Shaped	= 4.872¢	PRC R84-1 Op., App. F, p.5
(2) 5-Digit Presort Letter-Shaped	= 1.967¢	PRC R84-1 Op., App. F, p.5
(3) 5-Digit Cost Avoided	= 1.4658¢	PRC R84-1 Op., App. E, Annex 5, p.2
(4) Cost of Converted Volume	= 3.4328¢	(2) + (3)

¹ Annual Cost Revenue Analysis Reports.² Percentage change is total volume compared to FY '82 total volume.³ Appendix p. 3.⁴ FY '82 letter-shaped volume plus percentage increase reflected in Col. 2.⁵ Col. 4 - Col. 3.

	<u>TOTAL COST</u>	<u>UNIT COST</u>
FY '82		4.872c
FY '83	(46,700,817) (4.872c) - (1,825,311) (3.4328c) - 2,212,604	4.931c
FY '84	(49,870,126) (4.872c) - (2,957,211) (3.4328c) - 2,328,157	4.963c
FY '85	(52,835,373) (4.872c) - (4,461,278) (3.4328c) - 2,420,993	5.005c
FY '86	(55,512,291) (4.872c) - (6,018,080) (3.4328c) - 2,497,970	5.047c
FY '87	(57,445,486) (4.872c) - (7,091,415) (3.4328c) - 2,555,310	5.075c

MIGRATION FACTORS⁶

FY '82	-----
FY '83	1.01211
FY '84	1.01868
FY '85	1.02724
FY '86	1.03601
FY '87	1.04160

⁶ Unit costs divided by FY '82 unit costs.

QUESTIONS FOR THE RECORD SUBMITTED
BY DAVID PRYOR

QUESTION: My reading of the AP5 (accounting period 5) report indicates that the first half of 1989 is not looking too good from a productivity standpoint. What are your projections for 1989? Aren't workyears running 1.3 percent above 1988, and didn't you project a -0.9 percent?

ANSWER: In the R87-1 rate case, Fiscal Year 1989 workyears were estimated to decrease by 0.9 percent while the Fiscal Year 1990 President's Budget reflected an estimated 0.2 percent increase in Fiscal Year 1989 workyears. In both instances, the fact that Fiscal Year 1988 was a leap-year with one extra day served to lower the Fiscal Year 1989 percent of increase as we returned to a normal 365-day year. Our internal plan and the regular accounting period comparisons of actual results to this plan always reflect a comparable number of days and are not affected by leap-years.

Your reading of the A/P 5 statistics on workhours is correct for actual workhours. As of A/P 6, these results are essentially unchanged. We are still running 1.3 percent above 1988 and 0.8 percent over plan. Workload has been less than planned. Quarter II results are not yet available, but as of Quarter I, Total Factor Productivity (TFP) was 1.5 below the same period last year. Based on essentially no change in performance relative to plan for the rest of the year, our projections are a TFP loss in the neighborhood of 0.8 percent.

Although there are many pressures on our workhour growth, such as growth in delivery points, the variance to our planned growth is due to transitional problems we are experiencing as our sorting processes assimilate an unprecedented amount of automation and mechanization. Absorbing the transitional shocks is more difficult in a lower volume growth environment, as there are fewer opportunities to make immediate and full utilization of employees displaced by automation.

We are deeply concerned about these results and are working closely with the Regional Postmasters General to recover some of the productivity lost in the past three quarters.

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QUESTION: We have a chart that shows total factor productivity changes for the Postal Service over the last decade. During this decade, the Postal Service deployed a great deal of automated mail sorting equipment and experienced significant increases in the volume of easier-to-handle presorted mail. Nonetheless, productivity just hasn't been very good. The Service likes to cite an average annual gain of 0.3 percent since the reorganization. However, if you look at just the last decade, I think the annual productivity figures may actually be negative. Mr. Frank, you have only been on-board for a year and you have inherited someone else's baggage on productivity and other major problems. My question is, are you aware of how bad the recent performance is and what, if anything, can be done about it?

ANSWER: With the introduction of presort incentives in the late 1970's and early 1980's, easy-to-handle presorted mail did grow rapidly. However, presortation by mailers is an off-loading of work load by the Postal Service and does not affect Postal Service productivity whatsoever as we measure total factor productivity (TFP). It is primarily the nonpresorted mails that the automation equipment has been designed to sort and thereby raise Postal Service productivity at the outset. The automation equipment has been deployed only since 1982, with the largest deployments in 1987 and 1988. For the past two years, the inflation-adjusted clerk and mailhandler cost of processing a nonpresorted First-Class letter declined 2.6 and 4.1 percent respectively, indicating that automation is working.

However, for the entire period since 1978, it is true that Postal Service TFP has declined on average 0.2 percent per year. It should be noted that 1978 was a peak year for TFP performance achieved at the cost of some diminution in service quality. It should also be noted that during the presort conversion period (1976-1983) management did not have the benefit of a weighted workload measure. Total volume was still compared to workhour increases.

Postal management is very much aware of our productivity record and, in particular, the difficulties of achieving our automation savings on the bottom line. We are making every effort to improve this performance and are confident the benefits of our efforts will be clear in the future.

QUESTION: Last October, The Washington Post carried a story about problems with the mail sorting equipment in the Southern Maryland Division. Three of the Division's eleven optional character readers (OCRs) were out of commission and would take months to fix. Last week, the Postal Leader (March 28) carried a story about the pitfalls of automating the San Diego Division. Managers there described automation

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as "the most complex problem to ever land on the decks of postal field managers"; "automation killed us at first" said one official. Given the Service's reliance on automation, would you please explain to me why, after all these years, there aren't better procedures to keep equipment up and running; why, after all these years, a Division has to determine on its own how to maximize the use of equipments?

ANSWER: The Washington Post story was misleading. During September and October 1988, several single line optical character readers were taken out of service not to be "fixed," but for installation and acceptance testing of multiline optical character readers (MOCR). None of the three mail processing facilities within the Southern Maryland Field Division lost more than one machine at a time except for a two-day period at the Washington General Mail Facility. Even during this period, one of the machines was in an acceptance test and processing mail. The original deployment schedule for the division was accelerated at its request in order to improve service performance. This accounted for the two-day overlap which would have not otherwise occurred.

In regard to better procedures for ensuring automated equipment is kept in working order, the Postal Service has effective maintenance procedures in place. In no facility was equipment accepted from the manufacturer without trained maintenance support personnel being on board.

Divisions were not left on their own in preparing for the transition to MOCR. The MOCR program was supported by extensive headquarters and regional efforts to provide divisions with information necessary to support effective implementation. The focus of this effort, which began almost a year before the first production machines went into operation in early 1988, addressed areas such as the overall program plan, MOCR and directory operation, performance levels, maintenance preparation, address information issues, mail flows, processing priorities and strategies, advance planning emphasis, training needs, impact on other equipment, capturing savings, need for multi-functional involvement, importance of understanding by employees, and problems experienced by another large company when new systems were introduced. Several methods were used to assist divisions: implementation briefings were given to approximately 3,000 division managers and supervisors; implementation "cookbooks", technical equipment manuals, multiline OCR video tapes, bulletins, and media materials were distributed in advance of equipment deployment; and a national communications network was established that enabled offices to have immediate contact with knowledgeable experts on a 24-hour basis.

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The multiline program was not treated as just another change of equipment. It was looked at as a process change that required the support of almost every functional area. There was and continues to be considerable effort at all levels of the organization directed toward effective implementation of our automation strategies.

QUESTION: The Postal Service claims return on investments (ROI) of 22 percent and 28 percent, respectively, for Phases I and II automation. Please provide all data showing the development of distribution workhour savings upon which these ROIs are based.

ANSWER: Attached are copies of after-cost studies prepared by the Department of the Controller and reviewed by the Postal Inspection Service which indicate ROIs of 22 percent and 28 percent, respectively, for Phase I and II automation.

QUESTION: You said that in order to reduce the annual growth in postal costs, you plan, among other things, to increase the use of part-time and "temporary" employees. Have you conducted any studies of the impact of more flexibility in the work force on postal costs? If yes, could you please provide the results of these studies?

ANSWER: The categories of employees comprising the bargaining unit work force of the Postal Service are subject to collective bargaining. Changes to present structure would have to occur through negotiations with the postal unions. We presently have no study on the impact of more flexibility in the work force on postal costs. However, consideration is being given to the development of this information.

QUESTION: You and your associates seem to feel that the \$1 billion swing in Fiscal Year 1988 between actual results and what the Rate Commission recommended, including the early implementation of the new rates, was somehow explained by the failure to achieve planned workyear cost reduction targets of 2.2 percent, which you believe were overly optimistic. The figures seem to indicate that all of the 2.2 percent workyear savings were not realized since reported workyears exceeded the prior year by 3.1 percent--far more than the 2.2 percent predicted savings, plus the 0.5 percent predicted increase. Half of the planned FY 1988 workyear savings were directly tied to the OCR program which you are assuring us is working and producing savings. Can you explain how this could have occurred?

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ANSWER: The Postal Rate Commission (PRC) did not "recommend" an amount for Fiscal Year 1988. They did estimate a net income of \$487 million, which differed from the actual loss of \$597 million by more than \$1 billion. Compared to the R87-1 rate case estimates, higher than estimated workyears were the main reason the earlier rate implementation did not result in a net income in Fiscal Year 1988.

The R87-1 rate case assumed a 2.2 percent improvement in Total Factor Productivity (TFP) for Fiscal Year 1988, compared to actual TFP of .1 percent. Workyears were estimated to increase by .5 percent compared to an actual increase of 3.1 percent.

The variance from the rate case estimate is due to aggressive targets and transitional problems we are experiencing as we assimilate an unprecedented amount of automated equipment. Automation entails complex changes in work processes and resource utilization. Automation savings are difficult to capture in a low volume growth environment because there are fewer opportunities to make immediate and full use of displaced employees.

The automation savings assumed in the rate case were based on very aggressive assumptions relative to ZIP+4 usage and throughput rates, and the single line optical character reader (OCR) deployment which was never completed. Savings are being achieved as evidenced by the PRC's own methodology which indicated automation savings of over \$70 million in Fiscal Year 1987. The addition of Fiscal Year 1988 data not available when the PRC performed its analysis indicates additional savings of \$107 million in Fiscal Year 1988 and a total of \$226 million since Fiscal Year 1985. While this is not as much as planned in the rate case, the savings are nevertheless real and indicate that automation is working.

QUESTION: With regard to the Postal Rate Commission study on the OCR/Barcode automation, you have stated that you agree with Chairman Steiger "that what you are saving is being spent in other areas." The Commission analyzed the cost of distribution operations for non-presort First-Class letter mail and found that the costs of those operations, adjusted to reflect wage increases, were basically unchanged. If in fact there were savings from the automation of non-presorted First-Class distribution, it appears that those savings were dissipated in other mail distribution operations. As I understand it, costs such as health benefits would not affect the Commission's analysis. Can you explain what mail distribution costs have been increasing to offset savings generated by the automated equipment?

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ANSWER: While we must agree with the Postal Rate Commission's (PRC) observation that we have had more difficulty than anticipated in achieving automation savings on our bottom line, we do not agree with other parts of the PRC study. In particular, we take issue with the PRC's statement that year-to-year variation in these cost data are not relevant to an evaluation of the impact of automation on costs. We have updated the PRC study to include Fiscal Year 1988 data, and the results shown below indicate that the cost of processing nonpresorted First-Class letters declined as automation was deployed during the 1984-1988 period.

Clerk and Mailhandler Unit Costs
of Sorting Nonpresort First-Class
Letter-Shaped Mail After Adjustment for Wage
Levels and Migration

	Cents/Piece	% Change	Automation
FY 1982	4.872		Phase I
FY 1984	4.743	-2.7	
FY 1985	4.932	3.9	
FY 1986	4.905	-.5	Phase II
FY 1987	4.779	-2.6	
FY 1988	4.587	-4.1	Phase IIA

The unit cost reduction of 0.3 cents in constant dollars translates into a savings of 5,892 workyears in 1988 and a reduction of \$195 million in our wage costs.

It is nonetheless true that difficulties in other areas and unusually large mail mix changes resulting from the R87-1 postage rate adjustments have made it difficult to identify these savings on our bottom line or on our productivity performance. We are very much aware of these issues and are working very hard to improve our overall performance.

QUESTION: Your statement mentions both stamp consignment and improved relations between labor and management:

(A) Has stamp consignment improved labor-management relations?

(B) Can you identify any savings in window hours from stamp consignment?

ANSWER: The stamp consignment program has not improved labor-management relations in any measurable fashion and we did not expect to with this program. The program holds the potential of reducing lobby lines and workhours, providing one-stop shopping, and improving the image of the Postal Service. Customer response has been quite favorable. The cost per revenue dollar to operate the program is one cent

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as opposed to 15 cents at a postal facility window. We estimate it will divert approximately 100 million window transactions and \$500 million in revenue from lobbies in Fiscal Year 1989.

QUESTION: On page 6 of your statement you talk of the need for more flexibility on executive pay--for greater salaries and bonuses. In the past, I understand the Service has tended to raise the salary of all officers and executives at once--regardless of their performance. If you had the flexibility you seek, would this practice continue or would you use the new authority to reward only the good managers--those who met or exceeded performance goals?

ANSWER: Our past practice of increasing salaries of all officers and executives at the same time has been an effort to address both external and internal comparability within the limited dollar range that is currently available under the law. If we had greater flexibility in establishing salaries in the Postal Service, we would still need to be concerned with establishing basic salaries based on comparability to jobs of similar responsibility, but the Postal Service would also have the ability to recognize different levels of performance through a performance bonus system. In fact, we have such a bonus system today which is administered independent from any general increases, but it is severely limited in its ability to distinguish performance because of the pay compression created by the current salary cap.

I am certainly an advocate of pay for performance, but regardless of what the salary ceiling might be, this concept has to be balanced with the need for a salary structure that reflects the relationship of the level of responsibility of our jobs, both internally and in comparison to jobs in the private sector. I would foresee the use of bonuses to supplement a fair salary structure, encouraging risk and innovation, and rewarding high-level performance.

QUESTION: Does the Service rank Divisions by performance, either generally or in specific areas? If so, please provide any rankings for the last three years. If not, please explain why you have no basis for evaluating and transferring successful management styles and techniques.

ANSWER: Our primary means of evaluating performance is through a very specific goal-setting process which is tied to the compensation system. The specific areas which are measured are finance, service, human resources, and productivity. The goals as well as the methodology are

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negotiated, and both past performance and degree of difficulty are taken into account. Performance against the goals is tracked by accounting period and quarter.

Rankings are not generally used for performance evaluation, but are commonly employed to analyze some specific area in order to guide in the use of resources either to solve problems or spread success. For example, divisions might be ranked according to delivery performance so that the top performers could be visited to determine their strategies for success and encourage use of those methods elsewhere.

Management styles and techniques are monitored to identify successes, and these are shared with other divisions. The packaging of management style is difficult to accomplish. Education and the sharing of successes and the resulting benefits are more effective in changing the managerial culture.

One of the more recently defined strategies is the Management By Participation Process (MBP) and the establishment of the MBP National Steering Committee. MBP is a joint effort sponsored by the Postal Service, the League of Postmasters, the National Association of Postal Supervisors, and the National Association of Postmasters of the United States. The mission of the MBP Committee is to advocate and foster a managerial and working environment which allows all employees to be the best they can while providing customers with the best possible cost-effective service.

In the Employee Involvement and Quality of Working Life (EI/QWL) processes with the three participating national unions, the sharing of successes is a central theme. This takes place at the local level through the Local Joint Steering Committees, at the regional level through the Regional Joint Steering Committees and at the national level with the issuance of Annual National Success Stories. These success stories identify initiatives in the areas of service and productivity, customer services, improved labor management relations, and participative management.

Managers at each EI/QWL site are encouraged to learn from others and to try those approaches which address particular areas of local concern. Managers are also encouraged to seek assistance if they feel their circumstances require special attention. The labor management activities currently in the field--such as Management Union Solution Teams, Labor Management Plan, and Modified Articles 15 and 16 of the National Agreement--demonstrate the effectiveness of these sharing and transferring activities.

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QUESTION: According to the Annual Report (p. 7), the Postal Service plans to spend \$13 billion over the next five years on capital investments--\$7 billion on facilities and \$5 billion on equipment. The report also points out that the Service is seeking an increase in its long-term debt authority from \$10 to \$30 billion to accommodate this spending plan. At the end of FY 1988, the Service had a little more than \$5.6 billion in debt on its books, up from \$4.4 billion in debt at the end of 1987:

(A) Given the limit on capital expenditures in 1988, how could your long-term debt increase over \$1 billion? (I thought you could only spend \$600 million.)

(B) What is your current level of debt?

(C) With the Service's spendout of about 30 percent of obligations, what will be the level of debt on the books at the end of this year, next year, and so on?

ANSWER: The \$625 million limitation applied to new commitments, not cash payments. Although we did in fact restrict our new capital commitments to \$623.9 million in Fiscal Year 1988, we began the year with an unpaid balance of more than \$2.6 billion in previous commitments. The cash payments associated with these commitments, together with those incurred during Fiscal Year 1988, totaled more than \$1.6 billion. Our need for long-term debt is tied to those cash payments.

Our borrowing on December 1, 1987 of \$1.5 billion occurred prior to the enactment of the Omnibus Budget Reconciliation Act of 1987 and was based on an original \$2.4 billion commitment plan, which was subsequently reduced by 70 percent due to the cuts mandated by the Omnibus Budget Reconciliation Act.

In reference to our current debt, we currently have \$6.4 billion in debt outstanding. This includes Fiscal Year 1989 borrowings of \$300 million in December 1988 and \$600 million in March 1989.

The Postal Service's "spendout" rate varies each year depending on the composition of projects included in resources on order (previous commitments not yet received) and new commitments. The following shows our level of debt (in billions) outstanding and resources on order by year:

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<u>End of FY</u>	<u>Debt Outstanding</u>	<u>Resources On Order</u>	<u>Total</u>
89	\$ 6.4	\$2.2	\$ 8.6
90	\$ 8.0	\$2.7	\$10.7
91	\$ 9.5	\$2.7	\$12.2
92	\$11.0	\$2.3	\$13.3
93	\$12.5	\$2.5	\$15.0

QUESTION: What does it cost per stamp to service the current debt? Has the Service calculated what it will cost to service the larger future debt your \$13 billion spending plan will generate?

ANSWER: For Fiscal Year 1989 interest expense related to bonds and notes payable is projected to be \$471 million. When this cost is allocated over total Fiscal Year 1989 projected mail revenue, it represents approximately three-tenths of one cent of the price of a 25-cent First-Class stamp.

Debt service requirements in Fiscal Year 1993 are expected to reach \$1.8 billion, of which \$1.2 billion will be interest expense and \$600 million will be repayment of principal. The debt service at that point will be 3.4 percent of anticipated operating expense, which is low in relation to such large corporations as General Motors (slightly higher than seven percent).

QUESTION: It appears from what we have been reading in transcripts of Board meetings and in Inspection Service audit reports that in the facilities area, projects generally come in under budget and still fail to meet return on investment (ROI) projections:

(A) Regarding the ability of project managers to consistently come in under budget, is it just that they are the best managers in the Postal Service or are facility costs overestimated at the outset? We understand from briefings that the Service does build-in at least a 5 percent margin.

(B) In view of what we understand is a built-in 5 percent margin and consistent ability to come in under budget, is it possible that your facility investment plan should be shown as really costing less than \$7 billion?

(C) Regarding ROI, we have a chart (copy provided) that shows that in a large majority of the projects audited by the Inspection Service, the facilities are not generating the anticipated savings. I would like to know why new

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facilities do not generate the return on investment--savings--productivity gains--or service improvements the Service expects.

(D) My favorite on this list is the North Bay, California, project. This new facility replaced two old facilities; and, apparently, someone forgot or miscalculated the additional transportation costs associated with this consolidation--by six fold. The increase was estimated at \$153,000. The actual increase was \$901,811. How was the project manager and your facilities department rewarded for their North Bay effort?

ANSWER: The accuracy of cost estimates is heavily dependent on the anticipation of future changes in inflation in particular localities. Of necessity, the cost estimation process occurs well before the actual contracts are signed, as much as three years prior to some earlier projects. Looking at facilities completed during the past three years, we have seen a positive trend in the accuracy of our estimates. For projects completed in Fiscal Year 1986, the actual construction costs were 27 percent below estimate. The variance declined to 13.5 percent in Fiscal Year 1987 and 10.7 percent in Fiscal Year 1988. To put this into perspective, if we assume a 10 percent variance on the \$3.6 billion in major facility projects over the Fiscal Year 1989-1993 period, the resulting \$360 million variance would be approximately three percent of the \$13 billion plan and could be more than absorbed by a backlog of projects not yet in the plan.

Favorable bid climates develop where competition for contracts is fierce. This has been the situation in several areas of the South recently (e.g., Houston, Texas), and our construction costs have been below plan for that reason.

In answer to part B of your question, it is certainly possible that the cumulative total investment for those particular projects in the plan could cost less than \$7 billion. It should also be noted that over \$1.2 billion of that amount is for repairs, such as leaking roofs and sidewalk replacements. The Postal Service determines the size of its plan by addressing the total amount of investment needed, consistent with our ability to pay the costs. If individual projects ran less than plan, we would attempt to accelerate other projects that are needed, but held out for later accomplishment because of funding limitations. Our current backlog of projects far exceeds the plan.

In response to part C, the audits in question all indicate that the major objectives on which these facility investments were justified were met. These projects eased capacity problems, provided space to deploy high return on

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investment (ROI) equipment, improved working conditions, and maintained our mail processing network.

It is extremely important to understand that these investments are essentially the infrastructure of a national postal system. These investments are essential to maintaining our service network and are not justified on the basis of ROI. The ROI analysis is employed to ensure that we select the least-costly solution to our needs. Furthermore, the examples cited fail to recognize current analysis policy, which would have provided credit for the sustaining measures (e.g., rental space) management would have undertaken. This point is important as we simply would not have had the space to handle mail volumes experienced had it not been for these new facilities. Facility investments are very similar to whether to replace a road or water treatment plant, or that of a railroad contemplating track-replacement projects. However, a project's ROI is monitored and the Inspection Service audit is used to pinpoint specific problems and ensure that they are addressed. The majority of facility projects are within a few points of their planned ROIs.

In reply to the last part of your question referring to the North Bay facility, this was one of our more complex projects involving the consolidation of two Management Sectional Centers (San Rafael and Santa Rosa) and a centralization of mail processing operations for a number of associate offices. Consolidations of this type are not normally a part of our facility planning and some of the cost estimates made at the time of initial planning--transportation in particular--were understated. With volume growth nearly four times what was planned (11 percent versus three percent), along with the failure to receive the equipment (letter sorting machines and a facer-canceller), full implementation of area mail processing was precluded. Limited area mail processing is performed on automated equipment and additional offices will be added as additional equipment comes on line. In response to the audit, local management removed 10 excess positions from an Associate Office (San Rafael). In regard to the specific question about the project manager, he has since retired.

QUESTION: According to "note 3" in your Annual Report (p. 22), on October 1, 1989, you get a rebate of \$465 million capital investment dollars you deposited with the Treasury last year...so long as you comply with the 1987 Reconciliation Act. To "comply" you have got to reduce operating expenses by \$270 million during the current year. Are you going to get the escrowed money--what are you doing to reduce operating expenses by \$270 million, and are you going to capture those savings or will they evaporate as did the \$160 million last year?

ANSWER: The Postal Service has every reason to believe that all funds escrowed by the Omnibus Budget Reconciliation Act (OBRA) will be returned on October 1, 1989. The attached "Fiscal Year 1989 Implementation Plan of Operating Budget Reductions Required by Public Law 100-203" details Postal Service plans to achieve the \$270 million in operating expense reductions during Fiscal Year 1989. The final General Accounting Office's (GAO) report for Fiscal Year 1988 required by OBRA determined that "...the Postal Service's overall efforts produced more than the \$160 million in savings mandated by the Reconciliation Act." There was no reference to "evaporation" of these savings.

Section 6002(a)(3) of Public Law 100-203 (OBRA) states that the \$465 million Postal Service Escrow Fund will "cease to exist on October 1, 1989, and on such date all amounts deposited in such Fund under subsection (b)(2) shall be deposited in the Postal Service Fund established under section 2003 of title 39, United States Code." The return of these funds is not conditioned upon a favorable compliance report from the GAO for Fiscal Year 1989. The GAO's report to Congress is not due until October 31, 1989.

QUESTION: Do you have any objective facts comparing Postal Service construction procurement experience--in terms of contract outcome--under the federal rules as compared with other federal agencies? In other words, was the Postal Service better able or worse able than other federal agencies to make the federal procurement rules work--both competitive selective and other aspects of administering contract performance--than other federal agencies?

ANSWER: There are no objective facts comparing Postal Service construction procurement experience--in terms of contract outcome--under Federal rules compared with the experience of other Federal agencies.

QUESTION: If the Postal Service's construction procurement was in fact worse than other agencies, what steps were taken from 1970 to 1988 to remedy the problem?

ANSWER: We know of no data which would give a basis for comparing the performance of the Postal Service's construction procurement to that of other agencies.

QUESTION: In the future, will the Postal Service attempt to limit the number of construction firms that compete for any one contract? We understand that in the J.W. Bateson Co.

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bid protest, Service's legal counsel said the new Postal Service rule limiting closed negotiations to only seven firms was not proper.

ANSWER: The procedure in question in the "Bateson Case" is one that allowed the contracting officer to limit the number of prequalified contractors asked to submit proposals to a pre-established number of best qualified firms. The suggested number was seven and in no circumstances less than three. This limitation applied only to instances where the firms were to be prequalified prior to being solicited for proposals and was expected to be used only in a relatively few instances out of the total number of procurements made annually by the Postal Service.

The Postal Service legal counsel determined that the procedure, which is in a handbook, conflicted with the Postal Procurement Manual. Since the Procurement Manual takes precedent over the handbook, the limits were determined to be invalid.

Both the policy and procedure are under review to determine what needs to be done in the best interest of the Postal Service.

QUESTION: Has the Postal Service formally changed its procedures in response to Bateson? Will you respond by opening competition or further restricting it?

ANSWER: The procedures are in the process of being changed. The Postal Service is not abandoning its historical commitment to competition. Competition is clearly mandated by Section 7, Part 1, of Chapter 1 of the new Procurement Manual, and noncompetitive procurements require advance approval at the executive level.

QUESTION: Do you have any objective system in place to monitor the Postal Service's overall performance under the new procurement rules relative to its performance under the federal rules?

ANSWER: As a matter of responsible management practice, the Postal Service monitors its performance compared to the performance of other Federal agencies.

In an August 1988 study, we compared our success in seeking competition to that of the rest of the Federal Government. We compared favorably in both 1986 and 1987. In 1987, for example, 93.6 percent of our procurement dollars and 92.9 percent of our procurement transactions were awarded

competitively. This compares to a Federal Government at large record of 69.9 percent of procurement dollars and 82.3 percent of procurement transactions awarded competitively.

We also measure our performance against prior year achievements. This perhaps provides the best measure of our performance under our new procurement system compared to past practices. We began activating our new procurement policy as we deployed our computer-aided document generating system. This began in June 1988 and was incrementally extended so that all procuring offices were "on the system" by February 1, 1989. Figures to date reflect continuing success in filling our requirements through competition.

In Fiscal Year 1988, and to date in Fiscal Year 1989, the percentage of competitively awarded dollars and procurement transactions continues above 90 percent.

The Postal Service's leadership in awards to small businesses is holding firm, and our record on awards to minority-owned firms continues to be excellent. Through the first two quarters of Fiscal Year 1989, our overall performance indicates that more than 85 percent of our awards are going to small businesses, and nearly seven percent are going to minority-owned firms.

In February, the Postal Service issued an Internal Management Instruction reinforcing its commitment to do business with small and minority firms and adding women-owned firms to our program. We have begun tracking procurement awards to women-owned firms. Through May 1989, women-owned firms have received more than 2,000 awards valued at more than \$24 million.

QUESTION: What is the Service doing to meet industry concerns with the new rules? How far is the Postal Service prepared to go to restore open, competitive bidding procedures?

ANSWER: The Postal Service, under the new rules as under the old, is committed to competition. In addition, the Postal Service is committed to visible integrity in the procurement process, and this translates to a public process, fair procedures, and open communication. We have moved from formal advertised sealed bids to a competitive negotiation procedure, which does not detract or diminish our commitment to openness and competition.

Other than on the prequalification process adopted for certain construction awards, the Postal Service has received little adverse comment from vendors over the new procurement policy. To continue to encourage and solicit vendor comment, we sponsored our second annual supplier conference

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in February 1989. The first day was aimed at our 200 largest suppliers and the second day addressed the interests of small, minority, and women-owned businesses. There were some 400 attendees. We discussed our new procurement policy, its implications for suppliers, and our general commitments to competition, quality and timely performance. The feedback received reflected general support for our approach.

QUESTION: Last year we had a lengthy discussion of the growth at headquarters in both numbers of employees and size of the budget. The explanation I got was that any growth was due to the inclusion of "field support units" in the headquarters numbers. (We were at that time looking at increases at headquarters during a period of severe austerity in the field--with window hour cuts and all.) It appears from the 1988 Annual Report (p. 33) that you have changed your accounting procedures. The headquarters figures are broken down, so as to show the field support units separately. With these units out, the Annual Report shows a 10 percent increase in headquarters last year, on top of a 5 percent increase in 1987. Can you tell us a bit about the 15 percent increase in purely headquarters staff over the past 2 years and whether the growth trend in continuing?

ANSWER: The following is a schedule that shows the changes from Fiscal Year 1986 to Fiscal Year 1988, divided into those changes resulting from shift between field service, field, and headquarters units and those resulting from growth. Below the schedule, growth figures are further identified by organization.

	<u>FY 88</u>	<u>Shifts</u>	<u>Growth</u>	<u>FY 87</u>	<u>Shifts</u>	<u>Growth</u>	<u>FY 86</u>
Hdq	2,311	123	87	2,101	38	63	2,000

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Major contributors to FY 88 over FY 87 growth are:

International Postal Affairs	21 - temporary increase to conduct UPU Congress
Philatelic and Retail Services	17 - final phase of reorganization
Procurement and Supply	7 - to fill essential vacancies
Delivery Services	14 - to fill essential vacancies
Employee Relations	11 - expansion of Human Resource Information System
Inspection Service	11 - to fill essential vacancies
Other	6
Total	87

Major contributors to FY 87 over FY 86 growth are:

Marketing	22 - reorganization among various departments
Procurement and Supply	30 - to fill essential vacancies
Communications	10 - revised and enlarged functional role
Other	1
Total	63

QUESTION: In response to a written question submitted following last year's hearing, you advised me that information on the number of field employees detailed to headquarters was unavailable--that such information "is not centrally maintained." I know you have a large organization, on the order of 815,000 employees, and I don't expect you to know where each and every employee is every hour of the day, but do you really not know the whereabouts of detailees to headquarters?

ANSWER: The number of employees detailed to headquarters has been a matter of concern to senior managers for some time. Effective November 1988, all temporary details from the field and from field service units to headquarters which exceed 90 days must be approved by a Senior Management Committee member. Relatedly, details exceeding six months must be approved by the Personnel Resources Committee. Details of shorter duration would be left to the discretion of our managers. We are now able to track on a periodic basis all employees detailed to headquarters for periods of 90-days or more.

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QUESTION: On Sunday, April 2, 1988, The Washington Post carried an advertisement for a "senior advisor, automation programs." According to the position description, this person will "...oversee...coordinate...monitor...and communicate...":

(A) Is this a new position--who exactly is this person going to advise; who will he or she report to?

(B) What is the relationship of this position to Assistant Postmaster General (APMG) for Technology, and between those positions and that of the APMG Engineering and Technical Support?

(C) How many individuals does each of the APMGs supervise?

ANSWER: This is not a "new" position, but the filling of a vacant one. It is a position on a small staff headed by the Project Director, Automation Integration. This function reports directly to and advises the Senior Assistant Postmaster General, Operations Support, and the Senior Management Committee on planning for and implementation of all new automation. There is no direct reporting relationship to any assistant postmaster general (APMG). The APMG, Technology Resource Department, through two managers who report directly to her, supervises an authorized complement of 19 employees. The APMG, Engineering and Technical Support Department, through four managers who report directly to him, supervises an authorized complement of 477 employees.

QUESTION: Can you give the number of APMGs for each of the last 10 years?

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ANSWER:

ASSISTANT POSTMASTERS GENERAL

<u>YEAR</u>	<u>TOTAL</u>
1979	18
1980	17
1981	17
1982	17
1983	18
1984	18
1985	18
1986	18
1987	20
1988	21
1989	21

NOTE: These figures include the Treasurer and the Consumer Advocate. They do not include the Senior Assistant Postmasters General, the General Counsel, the Chief Inspector, or the Judicial Officer.

QUESTION: On the rate increase that was recommended in February of last year, the Postal Rate Commission gave the Service an extra billion dollars to cover costs that were not anticipated, but perhaps should have been at the time the rate case was filed--for health insurance, labor agreements and other considerations, including some of the deficit reduction payments. The Commission also included a \$1.3 billion contingency fund in its recommended decision. And, the Service apparently realized \$900 million more in revenue than anticipated by virtue of raising rates 9 weeks earlier than originally planned.

By my calculations, it seems as though the Service should have had quite a surplus in 1988, perhaps on the order of 1.5 billion. Even the more conservative and very expert PRC projected a surplus of \$413 million. A chart from PRC testimony before the House Committee last month shows that accrued costs exceed actual costs by almost \$1 billion. Had we not forced you to save \$160 million under the Reconciliation Act, the cost overrun should have been even larger. Now, remembering that the PRC took into account most, if not all, of those unanticipated costs, can you tell us why postal costs were a billion dollars over projection? The PRC says it was due to a 3 percent increase in workyears. Do you agree with that analysis?

ANSWER: The Postal Rate Commission (PRC) does not give the Postal Service money. The PRC does recommend postal rates intended to cover the estimated costs of a prospective test year. While it is true the PRC did increase the Postal

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Service's revenue requirement by about \$1.0 billion for unanticipated costs, it also included an offsetting reduction of \$1.0 billion because of the lower than estimated Federal Employees Retirement System switch rate. The net effect of the PRC adjustments to the Fiscal Year 1989 revenue requirement was negligible. The statement that Omnibus Budget Reconciliation Act (OBRA) reduced expenses by \$160 million and improved our financial results is inaccurate. The \$160 million "savings" was offset by the cost of a \$160 million payment to the Federal Employees Health Benefit fund. We also were required to pay \$350 million to the Civil Service Retirement System fund which increased our expenses by that amount.

No significant amount of additional revenue for OBRA was provided in the PRC's recommended rates, which were designed to cover only one-ninth of the \$350 million cost of OBRA in Fiscal Year 1988. One-ninth of the \$350 million was included as part of the prior year loss recovery provision. Fiscal Year 1988 actual expenses were \$924 million higher than estimated by the PRC when it issued its recommended decision. This variance is attributable largely to higher workyears than estimated in the rate case.

The rate case was based on very aggressive productivity targets, which in retrospect could only be partially achieved. Preliminary rate case expense estimates indicated an expense level that would have required a 25.5-cent stamp. The decision was made to go for higher productivity in order to hold the increase to 25 cents. To hold down the size of the rate increase, aggressive assumptions on savings from the Phase II Optical Character Reader program were included, as well as substantial cost reductions not associated with equipment. Such management improvements can only be accomplished by working "harder" or "smarter." The fact that these higher productivity targets were unilaterally established and partially accomplished means that rate payers will enjoy lower rates for a longer period of time than if no action had been taken.

QUESTION: In reviewing the FY 1988 financial performance, you indicate that you had to write a check to the Treasury for \$510 million. Although you acknowledge having saved \$160 million of the \$510 million in congressionally mandated savings, you say nothing about the Postal Rate Commission providing for the remaining \$350 million payment to the Treasury when it estimated a \$487 million net loss in FY 1988. Since you implemented rates 9 months earlier than they assumed you would, your final figures are essentially \$1 billion off the mark for Fiscal Year 1988. Isn't it true that this \$1 billion swing in Fiscal Year 1988 is not related to higher health insurance costs or \$510 million payments to the Treasury since they were already allowed

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for? Is this billion dollar swing in Fiscal Year 1988 likely to grow into a wider swing in Test-Year 1989?

ANSWER: Before answering your specific question, two points need to be made regarding the \$350 million the Postal Service was required to pay to the Civil Service Retirement Fund in Fiscal Year 1988 as a result of the Omnibus Budget Reconciliation Act of 1987 (OBRA).

First, no significant amount of revenue for OBRA was provided in the Postal Rate Commission's (PRC) recommended rates. The new rates were designed to cover Fiscal Year 1989 test year costs. One-ninth of the \$350 million OBRA payment was included in the Fiscal Year 1989 test year as a part of the prior year loss recovery provision.

Second, the actual results of the Postal Service were \$350 million worse than they would have been if OBRA had not been enacted. The fact that the PRC included this cost in its Fiscal Year 1988 estimate does not change its adverse impact on our financial results.

The Postal Service did not implement new rates nine months earlier than assumed by the PRC. New rates were effective April 3, 1988. This was two months earlier than assumed by the PRC.

The Postal Service has never explained the variance between the PRC's rate case estimate and actual Fiscal Year 1988 results as due to OBRA or health benefits. As reflected in both the Fiscal Year 1989 and 1990 President's Budgets, this variance is attributable largely to higher workyears than estimated in the rate case filing.

It is likely that the variance from the Fiscal Year 1989 rate case estimate will be more than \$1 billion if the contingency provision is excluded. The contingency provision is intended to provide for misestimates or unanticipated events. If the contingency provision is included, this variance will be negligible.

QUESTION: Current rates are based on Test Year (1989) costs which include \$1.3 billion for contingencies. Estimated costs for 1989 will consume about \$1 billion of the contingency amount. Can you identify the cost elements which will consume that money?

ANSWER: How much of the \$1.3 billion contingency will be consumed in Fiscal Year 1989 will not be known until the end of the year. As already recognized in both the Fiscal Year 1989 and 1990 President's Budget submissions, the most significant estimated cost elements which will consume the contingency are higher workyears and health benefits. Based

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on the Fiscal Year 1990 President's Budget, workyears were estimated to be 33,000 higher than estimated in the rate case or about \$1.0 billion. The January 1989 increase in health benefit premiums estimated at 11 percent in the rate case was actually over 24 percent. This added approximately \$160 million to Fiscal Year 1989 costs provided for in the rate case.

QUESTION: The table on page 26 of the Annual Report shows operating expenses increasing on the order of \$2 billion per year over the last 5 years. What is the likelihood that such increases can be held down in this and future years? How will this rate of increase affect your plan to lengthen the time between rate increase requests?

ANSWER: The total operating expense increased as follows during the past five years:

1988	\$3.6 billion
1987	\$1.8
1986	\$1.5
1985	\$2.9
1984	\$2.2

This is a simple question with a complex answer dependent upon a large number of factors, some of which are beyond the direct control of the Postal Service. Once the transfer of costs from the Federal Government to the Postal Service is complete, we believe the prospects for stabilizing the growth of Postal Service costs are favorable, if the Postal Service is removed from the Federal Budget process and the debt ceiling is increased.

Holding down the magnitude of increases in USPS expenses is dependent upon the following factors:

1. Impact of labor contract negotiations.
2. Rate of inflation.
3. Growth in workload (e.g., mail volume, delivery points).
4. Growth in health benefit premiums.
5. Externally imposed burdens (e.g., OBRA of 1987).
6. Continued transfer of costs from Federal Government to the Postal Service (e.g. annuitant costs).
7. Increase in debt ceiling.
8. Impact of automation and other cost reduction programs.
9. Impact of worksharing and contracting out.

Our ability to either lengthen the time between rate increases, or reduce the size of them, will depend on all the factors listed above. We believe our automation plan

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and other initiatives in the areas of worksharing and contracting will offset a significant amount of future cost increases.

QUESTION: The Annual Report (p. 7) discusses an estimated annual gross savings of \$500 to \$800 million through more worksharing. The report lists initiatives being considered. Which of those initiatives is currently being implemented? Do you have a firm implementation plan for all or any of those initiatives?

ANSWER: The attached implementation schedule analysis shows the initiatives that have been completed and those scheduled for implementation by year through 1991.

QUESTION: The Service prepares a "Cost and Revenue Analysis Report" that shows desegregated costs. Is it true that the FY 1988 Report shows a full one-third of costs to be non-operational? Can you provide copies of this Report for each of the last 5 years?

ANSWER: The Fiscal Year 1988 Cost and Revenue Analysis Report indicates that approximately one-third of postal costs are institutional. However, institutional has a much different meaning than non-operational. Institutional costs are those costs that can not be attributed to a specific class of mail. The Postal Service's (and the Postal Rate Commission's) primary test for attributing cost to mail classes is to measure the change in cost in response to the change in volume. As an example, if mail volume increases 10 percent, 60 percent of the cost would be attributed to the class or classes of mail and the remaining 40 percent would be considered institutional.

The Postal Service has many operational costs that do not vary with volume at all. Regardless of mail volume, we must have the ability to reach every home with mail delivery. We provide most communities with a full range of postal retail services; even when mail volume is so small the revenues recover only a portion of the cost of maintaining these retail outlets. Our letter carriers must walk or drive their route every day regardless of mail volume. In addition, in order to serve every post office, at least one truck must arrive in the morning with mail for delivery that day, and in the evening at least one truck must leave to carry mail to other communities. Therefore, a portion of our delivery, transportation and retail costs which are directly operational in nature are not attributed to a specific class of mail as the entire country benefits.

As requested, Cost and Revenue Analysis Reports for the past five years are provided.

Implementation Schedule AnalysisCompleted

On Demand Operation Mail Audits

Commingling of 5-Digit Barcoded and Nonbarcoded in ZIP+4 Mailings

Address Correction Service of Third-Class Mail

Allow Barcoded Mail and ZIP+4 Discount with Same Makeup Requirements as ZIP+4

1989

System Certification

Stages I & II - April and October

ZIP + 4 Barcoded Mail

Standard Endorsements (3) -- October

Increase Early Entry of First-Class Mail -- November

Improve Access to NCOA for Small List Owners (3) -- June

Barcoded Reply Mail Growth -- October

Mail Preparation Quality Feedback -- September

Copalletizing Multiple Second-Class or Third-Class Mailings -- December 1989 (3)

1990

ZIP + 4 Barcoded Mail

Modify Third-Class Mail Makeup Requirements for Automated Rate Categories -- February

Value Added Rebate -- April (3)

Increase Presort Volumes

Multiple Acceptance Times (2) -- January

Combine Permit & Metered -- November (3)

Centralized Postage Payment for Fourth-Class Mail -- September

Priority Mail Presort -- June

Note:

(1) Completed

(2) Field Test Planned for May, 1989

(3) Schedules Accelerated

Address Location Standards for Flats -- August
 Carrier Route Number on All Presorted Mail -- March
 Containerization of Second- and Third-Class -- April
 Containerization of Fourth-Class -- August
 Standards for Preparing Bundles, Packages & Pallets -- June
 Standard Address Location for Letters -- May
 Commingling Third- and Fourth-Class Mail
 -- Same Sack or Pallet (3) -- April
 Increase Presort Volume
 Combine Carrier Route Mail Different Weights & Sizes -- Dec.
 Centralized Postage Payment for Third-Class Mail -- September
 Expanded Sortation for Customers Incoming Mail (3) -- December

1991

Incentive for Sequencing -- January
 System Certification -- July
 Stage III
 ZIP + 4 Barcoded Mail
 3-Digit Presort Incentive -- January
 Extend Discounts to Bulk Regular Rate and Nonprofit Basic
 Rate Third-Class -- January
 Incentive for Destination Entry/Zoned Third-Class -- February
 Parcel Post Drop Ship Bulk Rate Service -- February
 Mailer Education Program -- January
 Size Standards for Third-Class Presorted Mail -- February

Nota: (1) Completed
 (2) Field Test Planned for May, 1989
 (3) Schedules Accelerated

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QUESTION: In February, the Subcommittee held a hearing on deceptive mailing practices. The testimony we received indicates that there might be considerable value in a toll-free hotline that consumers could use to report government look-alike scams and other questionable mailings. Would you report on the feasibility of such a hotline?

ANSWER: No law specifically prohibits look-alike mailings. In February, 1989 the Inspection Service testified in support of a bill that would make such mailings illegal. The Inspection Service has a consumer complaint program that addresses a wide range of consumer complaints including look-alike advertisements. Most of our enforcement involving these violations is conducted under title 39 USC section 3005 and section 3007 and title 18 USC section 1341. Should the pending legislation become law, the Inspection Service will include these types of complaints in its consumer protection program and initiate civil or criminal enforcement action where warranted. We are confident that our consumer protection program will be adequate to handle these complaints. If it proves to be inadequate, we will consider the feasibility of a hotline.

QUESTION: We also learned at that hearing that only 800,000 consumer mail kits--telling individuals what recourse they have to stop unwanted, unsolicited mail--have been distributed by the Postal Service. I would like to know why so few kits have been distributed. Can you look into a more vigorous outreach effort in this area?

ANSWER: The 800,000 consumer kits referred to at the hearing only involved our Sexual Oriented Ads (SOA) kits. This kit is distributed only if the solicitation involves sexual material. It does not pertain to all types of unsolicited products. The SOA kits program is administered aggressively and we expect the distribution of these kits to increase.

QUESTION: At the recent National League of Cities Conference, there was a workshop on postal issues. It is clear that there is a great deal of dissatisfaction with the Postal Service at the local general government level. While I know the Service has a network of customer service councils and mailers technical groups, I am unaware of any postal council or advisory group that deals with local governments. I think establishment of such a group would be beneficial. Do you have any plans in this area? If not, why not?

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ANSWER: The Postal Service has two existing organizations whose primary mission is to obtain feedback from customers at the local and national level. They also serve to educate customers on Postal Service products and programs. These organizations are the Mailers' Technical Advisory Committee (MTAC) at the national level and the Postal Customer Council (PCC) at local levels.

MTAC is comprised of 48 member associations or organizations who represent all major mail-related industries in each of the classes of mail. Each association nominates two of its members to serve as representatives at the quarterly MTAC meetings. The purpose of MTAC is to provide direct two-way communication between Postal Service management and major business mailer customers.

This important communication vehicle provides information, advice and recommendations to the Postal Service regarding the technical aspects of the introduction of mail into the postal system, the processing and transportation of mail, and the delivery of mail at its destination. At the same time, it allows the Postal Service to solicit information and market research on new products and services from some of its largest customers.

The target audience for the PCCs is the medium to small mailers within the local divisional boundaries. We have over 300 PCCs throughout the United States that meet on a regular basis to discuss issues related to mailing activities. This is a very effective way of addressing concerns of both private mailers and local government within defined geographical areas. Clearly, local government mailers share the same concerns as private sector mailers. In addition, there is a distinct advantage for local governments to participate with private sector business mailers in PCC activities since a pooling of talent could actually enhance local government problem solving.

To ensure that the National League of Cities is aware of the benefits of PCCs, Postal Service staff will contact the League and provide it with the necessary information. Headquarters PCC staff will alert local PCCs of the need to include state and local governments in their area. Finally, Postal Service staff will discuss the possibility of providing speakers or workshop personnel to the National League of Cities for any future conferences.

QUESTION: When you plan a new postal facility, do you consult local officials on the placement of that facility? I know you cannot always accommodate a community's interests, but putting a new facility out on the highway, rather than in town, can do serious economic damage.

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ANSWER: Yes, we consult with local officials on the location of each new postal facility. Local officials are provided three opportunities to review and comment on the proposed project in compliance with the intergovernmental review procedures. Review and comments by local officials are requested by the Postal Service at the following stages of project development.

1. Preferred area identification - Whenever a facility is scheduled to be replaced, the appropriate Field Division General Manager/Postmaster, in compliance with the intergovernmental review procedures, must coordinate with local public officials early in the planning stages and notify them of the preferred site area so that they may comment on its location. The appropriate facilities representatives provide assistance, as necessary, in arranging meetings with local public officials.
2. Advertisement for sites - When a particular project is advertised for offers, the State "Single Point of Contact" and their Designated Areawide Agencies are notified of the general location.
3. Preferred site selected - When a preferred site is selected, public officials are again notified of the exact location and given a reasonable time to comment on the selected site before any offer is accepted or any contracts are awarded.

QUESTION: How do you feel about the Postal Service being subject to the Federal Advisory Committee Act in order to promote openness and public understanding? (The Board of Governors is currently covered by the Government in the Sunshine open meeting law.)

ANSWER: From its enactment in 1972, the Federal Advisory Committee Act has not been considered to apply to advisory groups organized by the Postal Service. In enacting the Postal Reorganization Act, Congress intended the Postal Service to exercise broad discretion to operate the postal system in a businesslike way, without supervision by the General Services Administration, Office of Management and Budget, or other regulatory agencies within the Executive Branch. The reorganization made general Federal legislation concerning the details of agency administration broadly inapplicable to the Postal Service. See 39 U.S.C. 410(a).

In our view, the Federal Advisory Committee Act should not now be expanded to cover the Postal Service. We have established several advisory groups to assist the Postal Service in technical areas of our business. Advisory help is just one of the tools we use to obtain information and

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assistance on technological developments of importance to the Postal Service and to work with our customers to improve the more technical rules and standards on which their postal system operates. As a still labor-intensive system which is just now entering the age of automation, and which still has many complex mailing rules inherited from the past, the Postal Service needs the flexibility of all the tools it can bring to bear to address issues such as these.

Some advisory activities, such as meetings of the Mailers' Technical Advisory Committee and Postal Customer Councils, are already opened to the press and the mailing community.

We also have a Citizens' Stamp Advisory Committee which makes a very useful professional contribution in screening the many thousands of stamp topics requested by members of the public and by making recommendations to the Postmaster General for the comparatively few topics and designs which we can accommodate each year. A more formal and public process under the procedures of the Federal Advisory Committee Act could risk a situation in which both the Postal Service and the Congress would face much more organized pressures as points of "appeal." Since there are always more deserving candidate topics than slots available, and the proponents often feel strongly about their candidates, a more politicized stamp selection process would be a no-win situation for all concerned.

The Congress looks to the Postal Service, and to no one else among the Executive agencies, to obtain the performance you expect from the Nation's mail system. We think that we can continue to work with the Congress to see that your concerns about fairness, efficiency, proper conduct, and other public needs are met within all of our activities, without necessity for the intervention of the General Services Administration, Office of Management and Budget, or other intermediaries.

QUESTION: I understand the Inspection Service has issued a report on the use of contract carriers to replace city and rural carriers. While headquarters officials have, apparently, indicated they were unaware the report had been completed and stated that no action is planned, an official in the Eastern Region urged colleagues to consider contract carriers for new delivery areas. Just what does that report say, and what is the Service's position on the directive coming out of the Eastern Region?

ANSWER: The report in question, prepared by the Inspection Service, states that with cost the main consideration, it would be less expensive to contract our delivery routes than utilize postal employees.

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The Postal Service's position in general is clear. There are contractual obligations to the unions whenever we consider subcontracting. Those obligations and the procedure set down in the National Agreement will continue to be followed when making decisions to subcontract. According to that procedure, cost is only one element among five that are used to determine the need to subcontract.

Specifically on the directive coming out of the Eastern Region, our position remains the same. When faced with the decision of establishing a new route, the procedure is to study that route and come up with the method that is the most efficient, productive and cost-effective. One of the alternatives to decide from is contracting the route out, but it is done after much consideration and according to the procedure set down in the agreement.

QUESTION: Last summer we had a hearing on the Perot contract which, I understand, has been terminated. One of the issues raised in connection with that hearing was whether or not the Service should be subjected to government-wide procurement rules, including the Brooks' Act. I believe there were some discussions concerning how best to accommodate this interest in postal procurement. What changes, if any, has the Service made in its procurement rules to ensure increased competition?

ANSWER: We have been deploying our own Procurement Policy which was developed to reflect the best of Federal practice; to use proven ideas from industry; and to meet our unique needs. Rather than reflecting a departure from the Federal system, the new policy dramatically narrows the gap that had been widening between our superseded Postal Contracting Manual, itself patterned on the earlier Armed Services Procurement Regulations/Federal Procurement Regulations, and the newer Federal Acquisition Regulations (FAR). The Postal Service's new policy had three basic models: 1) the 1982 Office of Federal Procurement Policy Proposal; 2) commercial practices, as exemplified by the Uniform Commercial Code; and 3) the FAR.

The key elements we have been emphasizing to our procurement people as we've deployed our new policy system include: 1) our commitment to competition, 2) our focus on small, minority and women-owned participation in our procurements, 3) buying for overall value rather than on strictly low price, and 4) visible integrity throughout the process.

One change instituted, as a result of the hearings last fall is a management directive requiring Commerce Business Daily publication of all contemplated non-competitive transactions

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above threshold levels. The Postal Service policy on this point is currently more all inclusive than those defined in the FAR.

The Postal Service has also adopted and will be issuing in the next few weeks, a Management Instruction that defines and systematizes prerequisites for seeking approvals for non-competitive actions; tightens approval requirements; and defines documentation needs.

QUESTION: According to reports on the May meeting of the Board, productivity for FY 88 was actually a -0.1 percent, rather than the previously reported +0.1 percent.

(A) Was the revised figure known at the time of the Subcommittee's April hearing? If not, please explain why it takes 7 months to obtain the final figure? If the final figure was known, why was it not provided at the hearing?

(B) The final adjusted figure supposedly represents a significant decline in productivity during the fourth quarter. What exactly transpired in the fourth quarter?

(C) FY 88 is the second year in a row that final adjustments resulted in a negative productivity figure. Why?

(D) Do you plan to continue to talk in terms of average productivity gains since reorganization or will annual reports clearly reflect the current state of affairs?

ANSWER: The statement made at the May Board of Governors meeting that Fiscal Year 1988 total factor productivity (TFP) declined 0.1 percent was an unfortunate error. At this point, no revision to our reported 0.1 percent increase in Fiscal Year 1988 TFP has been made. Data are, in fact, routinely revised both in the Postal Service and official government reporting agencies as new information is obtained. To minimize confusion with respect to our TFP measure, we established the policy some years back to make revisions only one time per year. To make sure all new information is known, this revision occurs simultaneously with the release of the next year's TFP figure. That is, the Fiscal Year 1988 figure for Postal Service TFP will be revised to include new information when the initial figure for Fiscal Year 1989 is compiled.

This new information is based on official revisions in the price index data produced by the Bureau of Labor Statistics which the Postal Service uses to adjust data for price changes.

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(A) There was no revised Fiscal Year 1988 TFP data available for the April subcommittee hearings.

(B) We reported in our Fiscal Year 1988 Annual Report that TFP declined 1.5 percent in the fourth quarter due to shortfalls in workload without similar reductions in workhour usage. This experience in no way will impact whatever revisions are ultimately made to the Fiscal Year 1988 TFP figure.

(C) As noted, the main source of TFP data revisions stems from information changes outside the Postal Service. However, historically the impact of these data changes on our TFP measure has been quite small.

(D) As reflected by our Fiscal Year 1988 Annual Report, we have and will continue to report the current state of affairs. However, it still remains meaningful to compare our performance to a longer-term average performance for the private nonfarm economy, and we will continue to do so.

QUESTION: In management's seemingly endless search for an excuse for the current financial situation, the PRC has now been blamed for recommending a larger than requested first-class presort discount and a postcard rate of only 15 cents.

(A) If the postcard rate had been set at the 16 cent level requested by the Service, how much additional revenue would have been generated?

(B) Since presorted first-class mail makes a larger contribution (1.9 cents) to postal overhead than unsorted mail, please explain why an incentive which apparently diverts mail from unsorted to presort works to the detriment of the Service's bottom line.

(C) Since the PRC did not change the Service's overall revenue requirement, minuses (in the view of the Service) must have been blamed by other changes. Please list all deviations from the Service's request and discuss their revenues implications.

ANSWER: Had the post card rate had set at 16 cents, the Postal Service anticipates that approximately \$70 million more in revenue would be generated in Fiscal Year 1989.

The cost reduction from each piece that diverts from nonpresort to presort is less than 2 cents. However, the revenue loss is 4 cents. Consequently, each piece that migrates from nonpresort to presort mail results in a 2-cent financial loss for the Postal Service.

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The data referenced in the question employs average attributable costs and average revenues for presort and nonpresort mail to develop the contributions to fixed costs. However, it is not the average cost piece of nonpresort mail which diverts to presort. (Nonpresort First-Class Mail consist of a wide variety of mail including higher cost handwritten personal correspondence and lower cost bulk mailings of business mail.)

The changes in revenues comparing the Postal Service's requested rates and the Commission's recommended rates are highlighted in the table appearing on the next page. Our concern is not so much with potential shifts in revenue, but volume changes from higher contribution to lower contribution pieces. The change in the mail mix may result in reduced cost for each piece that shifts. However, the reduced cost may not match the reduced revenue. The previously described situation concerning presorted First-Class Mail is a good example.

Illustrating the point, it is worth noting that, using Postal Rate Commission data, a nonpresorted First-Class letter contributes 10 cents to institutional costs compared to a 4-cent contribution for a piece of third-class mail and a 6-cent contribution for a postcard. A recent forecast suggests that nonpresort volume may be almost four billion pieces less than assumed in the rate case, while postcards and third-class volumes may be 600 million pieces and 3 billion pieces higher, respectively. The effective result is that pieces that produce 4-6 cents in contribution are replacing pieces that produced 10 cents for a \$250 million reduction in net income.

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REVENUE DIFFERENCES
COMMISSION RATES COMPARED TO POSTAL SERVICE RATES
(DOLLARS IN MILLIONS)

CLASS	AMOUNT
FIRST	
PRESORT LETTERS	-\$111
CARDS	-\$70
PRIORITY MAIL	-\$93
EXPRESS MAIL	+\$68
SECOND-CLASS	
REGULAR RATE	+\$43
THIRD-CLASS	
REGULAR RATE	+\$118
FOURTH-CLASS	+\$20

QUESTIONS FOR THE RECORD SUBMITTED
BY TED STEVENS

QUESTION: I note that there has been labor union opposition to some of the pilot projects initiated by the Postal Service. For example, the mini post offices in the Sears stores in the Chicago area have received criticism. What has the impact of union opposition been on such pilot projects? What effect do these projects have on postal employment? Do you consult with the unions on such projects?

ANSWER: The precise impact this opposition has had on the Sears Contract Postal Unit (CPU) test has not been determined. Sears is concerned as it has received some letters, although the number appears to be small, from postal employees enclosing cut-up credit cards or telling the company that they intend to stop using Sears. Our concern for the unions' opposition is ongoing and will be considered throughout the testing phase.

The Sears CPU test began in September 1988 and is continuing. The test will have no impact on postal employment.

The American Postal Workers Union was notified that we intended to enter the Sears CPU testing project on August 18, 1988, and on September 13, 1988 the union was briefed on our plans. Since that briefing we have provided the union data on several occasions as soon as it was developed and available.

QUESTION: What is the cost to the Postal Service of the grievance and arbitration process? Do you have any suggestions for streamlining that process? What is the cost incurred in the arbitration of each grievance case? Has this cost increased or declined in the past few years? What efforts are you making to reduce these costs? Are all of the unions cooperating with this process?

ANSWER: The costs associated with the grievance and arbitration procedures are now the subject of an extensive survey. This survey identifies all individuals who have a part in the grievance and arbitration process--from a secretary in a field installation to the Assistant Postmaster General for Labor Relations. While we are unable to give a reasonable estimate of dollar costs at this time,

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we anticipate that the results of this survey will be available this summer and we will be able to make such an estimate at that time.

In addition to determining the processing costs for grievances, numerous joint management and union initiatives have been instituted to combat the problems associated with such procedures. These programs have substantially reduced the number of grievance appeals. Through the close of accounting period 6, we had 17,582 grievance appeals system-wide to step 3 of our grievance procedure. This figure represents a 50.54 percent reduction compared to the same period last year when we realized 35,549 appeals. These joint efforts with our unions are not only targeted to reduce grievances, but also to cause a permanent and positive change in the workplace climate.

QUESTION: Mr. Frank, you wanted to extend the normal three-year rate case cycle. Reports in the trade press tells us that the next rate increase will take place in early 1991. If this is true, efforts to extend the three-year cycle have not been successful. Can you tell us at this time when you expect to file a rate case and what consumers should expect to pay for a first class stamp?

ANSWER: Current projections call for the filing of a rate case next year. No estimate of the cost of a First-Class stamp can be made at this time.

QUESTION: Have the salary limitations for the executive level employees of the Postal Service caused any problems in terms of the retention or recruitment?

ANSWER: The Postal Service's inability to pay salaries commensurate with the level of responsibility has affected adversely our ability to retain and recruit top executives. My testimony before the House Post Office and Civil Service Committee on May 16, 1989, a copy of which is attached, details the problems the salary limitations have caused.

QUESTION: Mr. Frank, as you pointed out, later this year you will be hosting the Postal Union Congress. You will have the opportunity to set the agenda for this congress. What issues which might be brought up at this conference have significant relevance to the U.S. postal operation?

ANSWER: The United States Postal Service will serve as the host administration for 20th Congress of the Universal Postal Union (UPU). The inference should not be drawn, however, that it is the Postal Service which sets the agenda for the UPU Congress. A number of issues of significance to

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the USPS will be discussed and decided, but these issues arise from studies which have been underway in the UPU since the 1984 UPU Congress, and also from numerous proposals to change UPU regulations which postal administrations will submit. The agenda for the Congress will emerge from these studies and proposals.

The most important postal issue for the Postal Service at the upcoming UPU Congress is that of "terminal dues," payments made between postal administrations for the handling and delivery of mail by the country of destination. They are currently structured in an economically illogical manner and the Postal Service has been seeking to correct this.

The present UPU terminal dues structure is inequitable in that it is based only on the overall weight of the mail dispatches and does not take the number of items received into account. Proposals by the industrialized countries to establish a more equitable structure were rejected by the past two UPU Congresses, based on the controlling vote of the developing countries which favor the weight-based formula as the source of greatest bottom line return to them for the mail they receive.

The problem with the current UPU single rate per kilogram is that it overcompensates the delivering administration for heavier items such as publications and drastically undercompensates the delivering administration for lightweight items such as letters and advertising circulars. Previous studies within the UPU have indicated that while weight is a factor in determining the delivery cost of incoming international mail, the number of items received is a much more significant factor.

With a large number of publication mailers in the United States, one of our principal concerns about the UPU terminal dues structure is the negative impact it has on our rates for these items. One problem is that the terminal dues rate for publications is usually higher than the applicable domestic postage rate in the destination country. Major publishers have found it cheaper to move their entire printing operations to the destination locations or to freight their items for mailing in the domestic streams than to pay international postage rates that reflect the terminal dues rates.

The Postal Service hopes to see a change in the UPU terminal dues system which will be reviewed during the UPU Congress to be held in Washington this fall. A working party of seven postal administrations, including the Postal Service, has been studying the issue since the last UPU Congress with

a view toward developing a more equitable system for terminal dues while recognizing the needs of the developing countries.

Based on the rigorous analysis by this working party, the UPU Executive Council has recommended having separate terminal dues rates for LC items (letters and cards) and AO items (basically books and other printed matter) in recognition of the differences in per kilogram delivery costs for the two categories. Since the developing countries could not be expected to support a proposal that would reduce their revenue below current levels, the proposal was modified to take this into account as well by leaving countries with small outbound volumes under the current terminal dues system. The Postal Service will make every effort to work for the approval of this approach at the upcoming UPU Congress.

Although the terminal dues issue has the greatest potential overall implications for postal operations, a number of other issues will also be addressed. There will be proposals to introduce more flexibility into UPU regulations relating to international postage rates, and proposals to update the current scale of charges for surface transit services and to retain current air conveyance rates. In the area of postal operations and service enhancements, there will be proposals requiring administrations to establish service targets for priority and airmail items, and to expand and strengthen the role of the UPU in measuring the quality of service on a worldwide scale. The UPU Congress will also consider technical matters relating to the tracking of individual accountable items and of dispatches, to the use of bar code technology, and to the expedited transfer to airmail dispatches between air carriers.

The Postal Service has submitted proposals to strengthen UPU mail accountability provisions which, if adopted, will be of help in dealing with service with the Soviet Union.

The proposals on terminal dues will, if adopted, also have a significant impact on statistical and accounting operations relating to international mail flows.

Private companies engaged in the practice of remail may also be concerned about efforts to strengthen UPU Convention regulations relating to the treatment of items posted abroad to take advantage of lower postage rates. The current UPU regulations are optional. No proposals have emerged so far to change these regulations and the Postal Service will oppose any efforts to make them mandatory.

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QUESTION: Without question, productivity is the key to the future for the United States Postal Service. Could you explain in some detail what has happened in the last couple of years with respect to labor productivity and what steps you foresee being taken in the next five years to increase productivity?

ANSWER: We certainly agree that productivity improvement is very important to the future of the Postal Service, as it is for the economy in general. We think total factor productivity (TFP) is the most appropriate measure of productivity since it includes charges for the use of materials and capital as well as labor. However, we do track the progress of our labor productivity, and it has increased 0.5 percent per year over the last five years.

Our automation deployment, in particular, is designed to improve both labor productivity and TFP. However, productivity should be kept in perspective in terms of controlling the inflation of Postal Service costs. Price increases, particularly in salaries and benefits, can have a dollar impact on costs five or six times larger than the dollar savings from productivity advances. If we cannot hold down these price increases or offset them by productivity increases, we must resort to alternative sources of savings through contracting out.

QUESTION: There has been speculation in the postal press that the Postal Service management was afraid of becoming a carrier of advertising mail rather than a carrier of personal messages and that the recent third class rate increase was designed to slow down the rate of increase in third class mail. Is there any truth to the claim that third class rates were based not so much on costs but rather on policy? What has been the increase in third class mail volume? How does it measure up to increases following other rate increase cases since postal reorganization?

ANSWER: There is no truth to the claim that third-class rates were not based on costs. The third-class rate increase was driven by cost increases that were much higher than those for other mail on average. The cost increases, in turn, were driven by several factors including, primarily, increased delivery costs.

As a prime example, the substantial increase in the number of saturation mailings has increased our delivery costs significantly over the past several years. Previously, while almost every household would receive mail during the week, perhaps 80 percent of the households received mail on any given day. However, the relatively recent widespread use of saturation mailings means that in many instances we need enough carriers to cover 100 percent of the addresses on any delivery day. Also, the use of saturation

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mailings means, that in many instances, carriers deliver only third-class mail to addresses. In other circumstances, pieces of several classes are delivered simultaneously to households and the costs are attributed accordingly.

Our policy with regard to pricing third-class mail, along with all other non-subsidized mail, is that the prices should ensure that revenues cover their costs and provide an adequate contribution to the fixed or overhead costs of the Postal Service. We welcome additional business in the form of increased mail volume.

In regard to the increase in third-class mail volume, our most recent preliminary data indicate that third-class mail volume (bulk regular rate) has declined approximately three percent for the first half of the fiscal year compared to the same time period last year when the old rates were in effect.

Compared to mail volume trends experienced after other rate increases, this downturn in volume is not exceptional. Rate increases have historically resulted in either declines in the rate of growth or actual volume reductions. Third-class mail volume actually declined for two years after the rate increase in March 1974, though that year's economic downturn undoubtedly contributed to the decline. The current reduction in growth rates (from 9.3 percent to negative 1.5 percent) is similar to, although somewhat less than, the reduction in growth rates which occurred after rates were increased in February 1985 (from 19.3 percent before rate increases to 5.9 percent after rate increases).

QUESTION: I noticed that the rate of growth in third class mail volume has significantly slowed this past year. Can you tell us why this has happened?

ANSWER: Volume declines, as noted in the response to the previous question, were expected in our forecast for the same time period. The same forecast indicates that third-class volume will slowly begin to increase again. That rate of growth will, at least for the immediate future, be less than that experienced for third-class prior to the rate increase. The volume decline and the prospect for reduced volume growth are due primarily to the rate increase. Third-class mail volumes are not alone in that respect. As an example, First-Class and other mail categories show either varying declines in growth or absolute volume reductions after the rate increase. While the Postal Service did not propose rate increases with the intent to reduce mail volume growth, diminished growth is an inevitable outcome of such increases.

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QUESTION: I understand that former New York City postmaster, John Nolan, indicated in a memo that drug abuse is a major problem in the New York City division and that drug usage on the job posed a greater threat to the Postal Service than competition and/or privatization efforts. Just how widespread is drug abuse in the workplace, and what is the Postal Service doing to combat its use and abuse?

ANSWER: The Postal Service, like most employers, is concerned about the effects that drug abuse has on the workplace and we are committed to a drug-free mail system.

A key part of the Postal Service's effort to assure a drug-free workplace was the awarding in June 1988 of a contract to a laboratory to provide urinalysis drug screening services for a nationwide applicant drug screening program. This is one of several components of an overall policy that includes our Employee Assistance Program, criminal investigation and prevention activities, and drug education and awareness.

The national drug screening program is being phased in during Fiscal Year 1989. Our New York City Field Division was among the first sites to have key postal personnel trained in specimen collection protocol and program requirements. That office began drug testing applicants in January.

While there may be some negative public reaction to drug testing in general, we believe most citizens expect the Postal Service, as a public service employer, to maintain the highest possible standards in screening applicants for postal employment. This concern is directly related to our responsibility to maintain the sanctity and security of the mail.

QUESTION: What role is the Postal Service playing in this nation's war on drugs?

ANSWER: Employees who sell or use controlled substances seriously threaten the health, safety, morale, and productivity of all postal employees. Furthermore, employees who traffic in or abuse drugs undermine public confidence in the United States Postal Service. Our primary objective in this program is to apprehend, remove, and prosecute employees who sell controlled substances while on duty or on postal premises. This fiscal year, Inspectors have identified 255 people engaged in trafficking in controlled substances to postal employees. This represents a 13 percent increase over the same period last year.

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Our investigations involving the use of the mails to distribute drugs have increased significantly. During Fiscal Year 1987, we conducted 346 investigations resulting in 425 arrests. For the first half of Fiscal Year 1989, 680 investigations were conducted and 444 arrests were made. The Anti-Drug Abuse Act of 1988 (PL 100-690) contained several new provisions which will enhance the Postal Service's ability to contribute to the war on drugs. One of these is forfeiture for postal related drug and money laundering offenses. We are currently negotiating a Memorandum of Understanding with the Department of Justice which will fully implement these new laws.

The Postal Service is striving for a drug-free workplace and to accomplish that goal has undertaken the following:

1. The Postal Service has developed and soon will implement a program for applicant drug screening.
2. The Postal Service instituted a campaign in September 1988 against substance abuse in the workplace which consisted of messages to its employees via check stuffers, posters, buttons, and personalized letters from the Postmaster General. Ads in all Postal Service periodicals such as the Postal Bulletin, Postal Leader, and Postal Life have reinforced our anti-drug themes. The messages encourage those in need of help to seek assistance from their Employee Assistance Counselor (EAP) counselor. The EAP program plays a major role in helping those who are dependent on the use of a controlled substance.
3. Safety talks and other employees presentations convey drug awareness messages to postal employees.
4. See attached letter to Mr. David Tell, Deputy Chief of Staff, Office of National Drug Control Policy, for further information concerning our anti-drug efforts.

Mr. David Tell
Deputy Chief of Staff
Office of National Drug Control Policy
The White House
Washington, DC 20500

Dear Mr. Tell:

As promised during our recent telephone conversation, I have enclosed information concerning recent drug prevention and drug investigation activities by the U.S. Postal Inspection Service. Our agency believes very strongly in both approaches.

Substance abuse in the Postal Service parallels any major corporation in the United States. The effects of this problem are manifested in reduced productivity, increased job related injuries and absenteeism. Employee information about this subject had failed to stress an available resource for seeking help -- the Employee Assistance Program (EAP).

Consequently, a multi-faceted proactive substance abuse campaign entitled "Let's Fight Substance Abuse Together" was developed by the Inspection Service and targeted to all career postal employees. It was designed to span a five month period and includes: postcards, two informational pamphlets, buttons, two letters from the Postmaster General, employee newsletter articles, pay stub notices, and employee safety talks. (Samples are enclosed.)

Regardless of these prevention efforts, we realize that with a workforce of over 800,000 employees, there will still be a percentage of those employees who will abuse or sell controlled substances. These employees undermine public confidence in the U.S. Postal Service and will not be tolerated. The Inspection Service's primary objectives in these instances are to apprehend, remove, and prosecute employees selling controlled substances while on duty or on postal premises.

In the last five years the Inspection Service has demonstrated its dedication to this program by increased commitment of investigative resources. Increased investigative workhours have resulted in increased arrests as demonstrated by the following:

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Workhours	71,804	86,611	96,110	121,702	133,917
Arrests	137	210	261	307	351

If you have any questions after you have reviewed the material do not hesitate to call on me. I can be reached locally at 268-4408. Also, I wish to remind you that I, along with other managers of our agency, would like to meet with you and discuss some of our long range plans and establish a dialogue with your office.

Thank you for your interest and I look forward to meeting with you in the near future.

Sincerely,

Lanny S. Miller
Inspector/Liaison Officer

Enclosures

INTERNAL CRIMES NARCOTICS

Those employees who use or sell controlled substances threaten the health, safety, morale, and productivity of themselves and those who work around them. The employees who traffic in or abuse drugs undermine public confidence in the United States Postal Service. The Inspection Service's primary objective in this program is to apprehend, remove, and prosecute employee selling controlled substances while on duty or on postal premises.

In the last five years, the Inspection Service has demonstrated its dedication to this program by its commitment of resources. The increasing hours used to investigate these cases have resulted in increased arrests.

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Workhours	71804	86611	96110	121702	133917
Arrests	137	210	261	307	351

SUBSTANCE ABUSE IN THE WORKPLACE

PROBLEM: SUBSTANCE ABUSE IN THE POSTAL SERVICE PARALLELS ANY MAJOR CORPORATION IN THE UNITED STATES. THE EFFECTS OF THIS PROBLEM IS MANIFESTED IN REDUCED PRODUCTIVITY, INCREASED JOB RELATED INJURIES AND ABSENTEEISM. CURRENT EDUCATION AND AWARENESS PROGRAMS IN THIS AREA DID NOT REACH ALL LEVELS OF EMPLOYEE IN THE POSTAL SERVICE. FURTHER, EMPLOYEE INFORMATION ON THIS SUBJECT FAILED TO STRESS AN AVAILABLE RESOURCE FOR SEEKING HELP - THE EMPLOYEE ASSISTANCE PROGRAM (EAP).

PREVENTION MEASURES

A MULTI-FACETED PROACTIVE SUBSTANCE ABUSE CAMPAIGN TITLED "LET'S FIGHT SUBSTANCE ABUSE TOGETHER" WAS DEVELOPED AND TARGETED ALL CAREER POSTAL EMPLOYEES. THIS CAMPAIGN DESIGNED TO SPAN 5-MONTHS INCLUDES POSTCARDS, TWO (2) INFORMATIONAL PAMPHLETS, POSTERS, BUTTONS, TWO (2) LETTERS FROM THE POSTMASTER GENERAL, JOURNAL ARTICLES, PAY CHECK NOTICES AND EMPLOYEE SAFETY TALKS. SIMILAR PROGRAMS TO OUR NATIONAL CAMPAIGN HAVE BEEN IMPLEMENTED AT THE DIVISION LEVEL. PRELIMINARY RESULTS REFLECT AN INCREASE IN THE NUMBER OF REFERRALS AND ENROLLMENTS INTO THE EAP PROGRAM.

U. S. POSTAL SERVICE SUBSTANCE ABUSE CAMPAIGN

SCHEDULE OF EVENTS

EVENT NO.	ITEM	DATE W/O	APPROX. COST
1.	FLIER - EMPLOYEE GUIDE TO EAP	AUGUST 1	\$35,000 *
2.	LETTER FROM PMG	OCTOBER 10	\$23,000
3.	POSTER	OCTOBER 31	\$18,000
4.	BUTTONS	OCTOBER 31	\$1,200
5.	1ST PAMPHLET - ABOUT SUBSTANCE ABUSE AT WORK	NOVEMBER 21	\$111,007
6.	SUPERVISOR SAFETY TALK	NOVEMBER 28	- N.C. -
7.	EAP - POSTCARD	DECEMBER 5	\$8,500
8.	PAYCHECK MESSAGE	DECEMBER 26	- N.C. -
9.	2ND PAMPHLET ABOUT DRUG ABUSE	JANUARY 2	\$111,007
10.	FINAL LETTER FROM PMG	SPRING 1989	\$23,000
			<u>\$295,714</u>

**LET'S FIGHT
SUBSTANCE ABUSE
TOGETHER**





THE POSTMASTER GENERAL
Washington, DC 20260-0010

Dear Fellow Postal Employee:

The most valuable resource an organization has is its employees. This means you are extremely important to the Postal Service. One of my primary concerns is to maintain a safe and healthy work environment for you--a work environment free from alcohol and drug abuse.

Studies have shown organizations can reduce accidents and absenteeism and improve productivity by actively addressing the problems associated with substance abuse. All of us bear the costs associated with substance abuse; from the inability to perform our individual best to families which are torn apart. Employee involvement with alcohol and drugs off-the-job, as well as on-the-job, can have an impact in the workplace and on our ability to accomplish our goals. I need your help. I'm asking you to take an active role in our current education and awareness campaign to combat the abuses of alcohol and drugs.

The Employee Guide to the Employee Assistance Program (EAP) recently mailed to your home responds to questions employees commonly ask about EAP. The EAP is designed to assist employees in dealing with a personal drug habit without jeopardizing their continued employment with the Postal Service, provided they stop involvement with drugs. The EAP is also available to any employee who feels he/she may have a drinking problem.

Our Employee Assistance Program is available to any employee for information and assistance. If you need help, please call your local EAP office for a free and confidential interview. The telephone number is available through your personnel office. If you know any postal employee with a substance abuse problem, encourage him or her to take advantage of this valuable service.

Sincerely,

Anthony M. Frank
Anthony M. Frank

LET'S FIGHT SUBSTANCE ABUSE TOGETHER.

SUPERVISORY SAFETY TALK

SUBJECT: U.S.P.S. SUBSTANCE ABUSE CAMPAIGN -
"LET'S FIGHT SUBSTANCE ABUSE TOGETHER"
HOW DOES SUBSTANCE ABUSE EFFECT YOU?

OF ALL FATAL ACCIDENTS OCCURRING ON THE ROADS TODAY, MORE THAN 50% INVOLVE ALCOHOL OR DRUG ABUSE. OVER 80% OF FIRE DEATHS, 65% OF DROWNINGS, 22% OF HOME ACCIDENTS, 77% OF FALLS, 36% OF PEDESTRIAN ACCIDENTS AND 55% OF ARRESTS ARE LINKED TO THE USE OF ALCOHOL AND DRUG CONSUMPTION.

IN FACT, SURVEYS INDICATE 10-15% OF ALL EMPLOYEES IN THE UNITED STATES HAVE A SUBSTANCE DEPENDENCY OF ONE FORM OR ANOTHER. THE LOSS TO INDIVIDUALS, THEIR FAMILIES, COMMUNITIES AND EMPLOYERS IS DEVASTATING. THESE LOSSES ARE THROUGH INCREASED ABSENTEEISM, PROPERTY DAMAGE DUE TO ACCIDENTS, HIGHER COST OF MEDICAL EXPENSES AND WELFARE SERVICES AND REDUCED PRODUCTIVITY.

IT SHOULD COME AS NO SURPRISE THAT THE UNIONS AND MANAGEMENT WANT YOU TO BE BETTER INFORMED ABOUT THE DANGERS OF ALCOHOL, DRUGS, AND OTHER SUBSTANCE ABUSE IN THE WORK PLACE AND AT HOME.

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EACH OF YOU SHOULD HAVE RECEIVED A COPY OF THE EMPLOYEE GUIDE TO THE EMPLOYEE ASSISTANCE PROGRAM (EAP), THE PAMPHLET ABOUT SUBSTANCE ABUSE AT WORK AND A LETTER FROM THE POSTMASTER GENERAL ON SUBSTANCE ABUSE. THESE ITEMS ARE ALL PART OF THE POSTAL SERVICE'S SUBSTANCE ABUSE CAMPAIGN TO MAKE EACH AND EVERY POSTAL EMPLOYEE AWARE OF HOW SUBSTANCE ABUSE IMPACTS YOU, A FAMILY MEMBER OR SOMEONE YOU WORK WITH. WE ALSO WANT YOU TO BE AWARE OF THE HELP AVAILABLE THROUGH OUR EMPLOYEE ASSISTANCE PROGRAM (E.A.P.).

EXPERTS ALL AGREE THAT EACH REFERRAL TO E.A.P. OR TREATMENT AGENCY LEADS TO POSITIVE RESULTS. ALCOHOLISM AND DRUG ABUSE ARE CHRONIC PROBLEMS WHICH DON'T GO AWAY WITH TIME. SINCE THESE PROBLEMS ARE PROGRESSIVE, THEY WILL ONLY GET WORSE AS LONG AS SOMEONE CONTINUES TO DRINK OR ABUSE DRUGS. AS WE ALL KNOW, QUITE WELL, ALCOHOL AND DRUGS ARE ALL TOO OFTEN FATAL.

I ASK EACH OF YOU TO TAKE THE TIME TO LOOK OVER THE LITERATURE WHICH WAS SENT TO YOU. IT PRESENTS A LOT OF GOOD INFORMATION WHICH WILL HELP YOU BETTER UNDERSTAND THE DIFFERENT FORMS OF SUBSTANCE ABUSE AND THEIR EFFECTS. ADDITIONAL COPIES CAN BE OBTAINED THROUGH YOUR E.A.P. OFFICE.

THE MATERIAL IS WRITTEN IN A SIMPLE, BUT DIRECT FORM. WE HOPE YOU WILL SHARE THE INFORMATION IN THESE BOOKLETS WITH YOUR FAMILY, ESPECIALLY YOUR CHILDREN.

PLEASE KEEP IN MIND, POSSESSION, THE USE OR SALE OF DRUGS AND OTHER CONTROLLED SUBSTANCES IS AGAINST THE LAW. ALL LAW ENFORCEMENT AGENCIES ARE STRESSING THE INVESTIGATION OF DRUG-RELATED CRIMES. DRUG ACTIVITY IN

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THE POSTAL SERVICE SHOULD BE REPORTED TO YOUR SUPERVISOR OR THE INSPECTION SERVICE.

HOW DOES SUBSTANCE ABUSE EFFECT YOU?

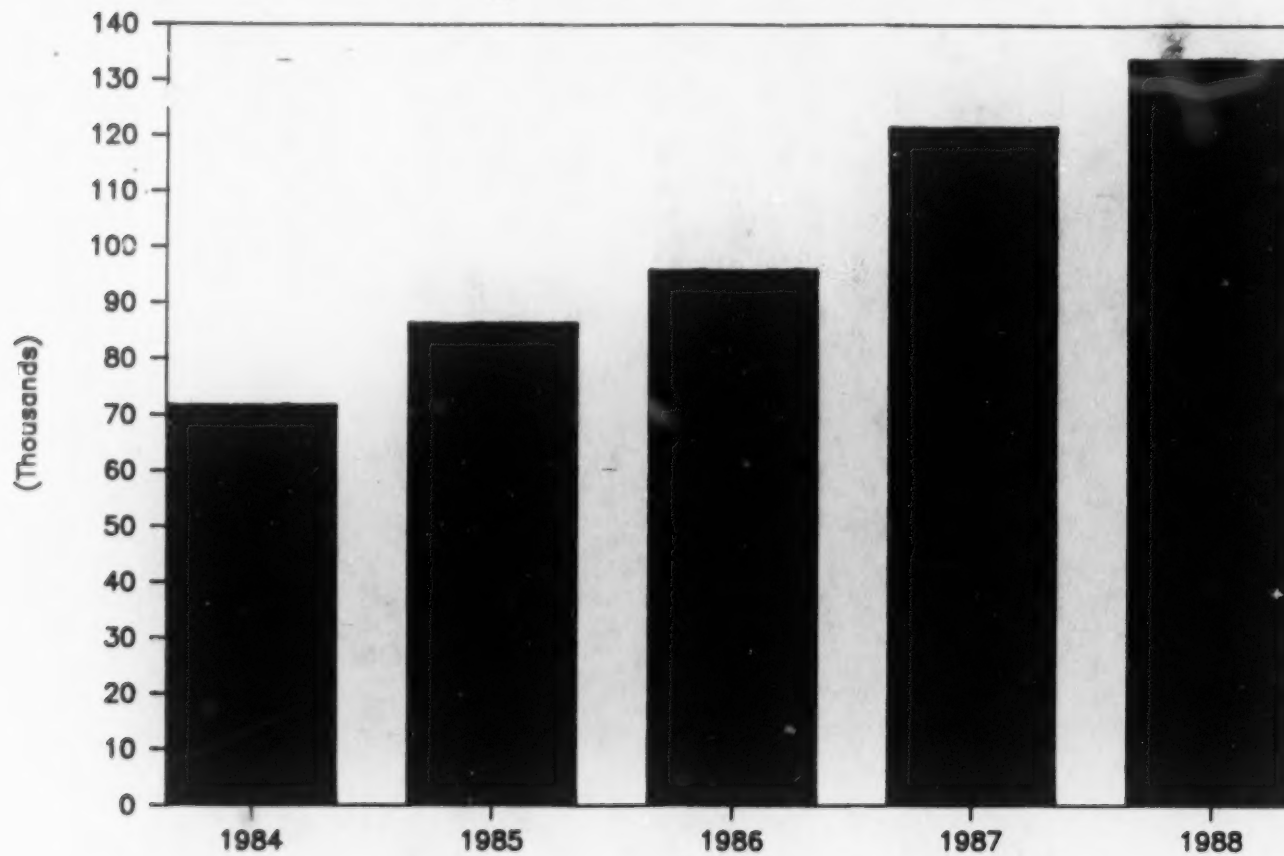
SUBSTANCE ABUSE EFFECTS YOUR HEALTH, SAFETY AND FUTURE.

I BELIEVE IF POSTAL EMPLOYEES, THE UNIONS AND MANAGEMENT ALL JOIN FORCES, WE CAN MAKE OUR POST OFFICE A SAFE, ENJOYABLE, AND PRODUCTIVE PLACE TO WORK.

SHOULD ANY OF YOU HAVE QUESTIONS OR CONCERNS ABOUT DRUGS OR SUBSTANCE ABUSE IN THE WORK PLACE FEEL FREE TO CONTACT ANY SUPERVISOR, OR YOUR EMPLOYEE ASSISTANCE PROGRAM COUNSELOR AT _____.

LET'S FIGHT SUBSTANCE ABUSE TOGETHER!

INTERNAL CRIMES NARCOTICS WORKHOURS



QUESTION: Wearing my Rules Committee hat for a moment, I would like to know the current status of the Smithsonian-managed postal museum proposed for inclusion in the Old D.C. main Post Office.

ANSWER: For several months, both the Postal Service and the General Services Administration have been negotiating to sign a long-term lease agreement for the redevelopment of the Old D.C. Main Post Office. We hope to complete an agreement within the next month. The current plan calls for a postal museum to be included in the building.

QUESTION: Mr. Frank, the testimony of the Chairman of the Postal Rate Commission of the House was not very flattering to the Postal Service management. In short, they asserted that you failed to manage efficiently, that your labor costs are way above your projected costs despite Congressionally-mandated reduction in operating costs. I do not minimize the difficulty of balancing increased services with reduction in labor costs. How do you plan to do this?

ANSWER: We are making every effort to balance our costs growth as we serve ever-expanding delivery points and a growing mail volume. As noted, this is not an easy task. In terms of the testimony of the Chairman of the Postal Rate Commission, we have also testified that projected cost savings in the R87-1 rate case were, in retrospect, overly optimistic and that our costs have been somewhat higher than projected. This situation has been compounded by mail mix changes following rate implementation that have made it very difficult for our managers to adjust, in particular, their workforce needs to their changing workload. We are cognizant of this situation and are working closely with our operations managers to bring cost growth more in line with workload growth.

QUESTION: Mr. Frank, according to some reports, automation has increased from 26% of the mail to 34% of the mail, yet your labor costs have increased. Shouldn't these costs have declined as automated mail handling becomes more widespread?

ANSWER: As the proportion of mail sorted on automated equipment rises, it is certainly correct to expect the cost of this mail will decline in inflation-adjusted terms, and that is exactly what has occurred. The cost of sorting a nonpresorted First-Class letter declined 0.5, 2.6, and 4.1 percent in the years 1986, 1987, and 1988 respectively. However, we do not wish to minimize the difficulties we have had in other areas or the impact of unusually large mail mix change resulting from the R87-1 postage rate adjustments on overall cost performance. When balanced across all these areas, it has been admittedly difficult to see these cost

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reductions on our bottom line. We are very much aware of these problems and are working hard to rectify this situation.

QUESTION: Mr. Postmaster General, the President of the LTV Association has written me protesting the U.S. Postal Service plan to resell 98,000 used DJ-5 postal vehicles. He contended the sale should not occur because of the potentially public hazards if used as a passenger vehicle. What hazards to the general public: drivers, passengers, and bystanders, does the sale of DJ-5 postal vehicles pose?

ANSWER: The original purchase of DJ-5 jeeps required that they be in standard production in 1968 when a competitive evaluation was conducted among three manufacturers to select a new light delivery vehicle. The manufacturers and vehicles tested were Ford - Bronco; International Harvester Corporation - Scout; and Kaiser Jeep Corporation - Jeep Dispatcher 100. The Jeep Dispatcher 100 was selected from that competitive process.

The Jeep Dispatcher 100 was a derivative of the Jeepster and commercial CJ-3 jeep. Any assertion that the jeep was designed solely for the delivery of mail is without merit. The original procurement performance requirements stated that the vehicle was to be the latest current model vehicle design with minor modifications, i.e., right-hand drive. The vehicle was certified to meet all requisite safety standards for that type and class of vehicle applicable in the year of manufacture. This certification did not differentiate between postal and non-postal drivers or designate any age criteria.

A 1984 AM General commercial sales brochure states that "since 1969, more than 136,000 Postal Service commercial use DJ-5 series vehicles have been produced." The brochure also states that the DJ-5s "serve the needs of a variety of users."

The DJ-5, like most utility vehicles, does have a high center of gravity compared to passenger cars. However, sales brochures for the vehicle states that the fully loaded DJ-5M may be driven on highways up to 55 MPH, if conditions permit. Previous vehicle models were required to operate at the maximum posted speed limits at the time of manufacture, which were up to 70 MPH.

Between 1975 and 1985, approximately 50,000 surplus DJ-5 vehicles were sold to the public. These sales substantially increased the population of DJ-5 vehicles in the hands of the general public. Therefore, it follows that there would be an increase in the frequency of accidents involving the vehicle. We acknowledge a correlation between the number of

- 11 -

surplus vehicles sold and the number of potential accidents. However, there is no evidence, empirical or otherwise, that proves the DJ-5 is more dangerous than other utility vehicles. If there were, the Postal Service would have an obligation to its employees to suspend use of the vehicles.

The Postal Service resumed the sale of DJ-5 jeeps in November 1988, and will sell approximately 98,000 jeeps in the next five years with a market value of approximately \$150 million.

**AUTOMATION FINANCIAL
ANALYSIS TASK (AFAT)**



**PHASE II AUTOMATION
AFTER COST STUDY**

February 17, 1989

**Office of Capital Investment
and Financial Analysis
Department of the Controller**

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EXECUTIVE SUMMARY

The Automation Financial Analysis Task (AFAT) was developed by the Department of the Controller and monitored by the Postal Inspection Service to provide a mechanism to evaluate the actual results achieved under the Postal Service's automation program. AFAT was first utilized in February 1986 to conduct a post audit of Phase I of the automation program which involved the initial deployment of 252 optical character readers (OCRs) and 248 bar code sorters (BCSs). The study indicated this investment for Phase I actually achieved a ROI of 22% versus an expected ROI of 22%.

The post audit review summarized in this report encompasses Phase II of the automation program. The Phase II deployment included an additional 403 single line OCRs, 452 BCSs and 250 expanded ZIP retrofit (EZR) kits to convert existing multiposition letter sorting machines (MPLSMs) to a ZIP + 4 format. Phase II required a capital investment of \$450.2 million which was approved on January 10, 1984, by the Board of Governors. The original Decision Analysis Report (DAR) prepared in support of this investment projected an ROI of 67%. This return was substantially predicated on high customer usage of ZIP + 4 codes, with estimated usage expected to reach 90% by 1988. In February 1987, in recognition that ZIP + 4 usage would not develop as rapidly as predicted, the Board of Governors announced a "mid-course correction" which shifted Postal Service automation strategies to a multiline OCR environment which would enable us to capture the full benefits of automation regardless of ZIP + 4 usage rates. In view of this significant change in strategy the Engineering and Technical Support Department has developed an adjusted savings projection which accounts for low ZIP + 4 usage and the benefits which could be anticipated from the Phase II investment in this type of environment (current ZIP + 4 usage, 20%).

The adjusted DAR projected an ROI of 32%. The 32% ROI was generated by reducing the ZIP + 4 usage rate to a current rate of 20%, leaving all other factors unchanged. After adjusting for current inflation factors and eliminating projected carrier savings, the DAR ROI is further reduced to 26%. Audit results of the AFAT study indicate an actual ROI of 28%. The 28% ROI is based on zero volume growth as assumed in the DAR. It's interesting to note, if a modest 3% per year volume growth rate is assumed, the analysis indicates the actual ROI would be 31% in a single-line environment.

The following is a comparison of individual line item projections versus actual results. The operating variables are extended for a ten-year period.

Comparison Adjusted for ZIP + 4 Usage Only

Decision Analysis Report Cash Flow Item	*Adjusted Cash Flow (000)	Actual Results (000)	Variance (000)	Effect on ROI
Equipment Investment	\$(393,850)	\$(333,929)	\$-59,921	-4%
Site Preparation	(16,915)	(6,237)	-10,678	+1%
Maintenance	(385,162)	(193,964)	-191,198	+2%
Clerk Savings	2,555,695	3,156,002	600,307	+10%
Carrier Savings	463,419	0	-463,419	-6%
Variables not in DAR		(790,074)	-790,074	-7%
Return on Investment (ROI)	+32%	+28%		-4%

* Reflects adjustment prepared by Engineering and Technical Support Department to account for actual ZIP + 4 usage rate.

Comparison With All Adjustments

Decision Analysis Report Cash Flow Item	*Adjusted Cash Flow (000)	Actual Results (000)	Variance (000)	Effect on ROI
Equipment Investment	\$(393,850)	\$(333,929)	\$-59,921	-2.5%
Site Preparation	(16,915)	(6,237)	-10,678	+5%
Maintenance	(308,962)	(193,964)	-114,998	+2%
Clerk Savings	2,405,625	3,156,002	750,377	+12%
Variables not in DAR		(790,074)	-790,074	-10%
Return on Investment (ROI)	+26%	+28%		+2%

*Reflects adjustments prepared by Engineering and Technical Support Department to account for actual ZIP + 4 usage rate, inflation factors, and elimination of projected carrier savings.

The accompanying report provides a more indepth discussion regarding the background, scope and methodology employed in conducting the Automated Financial Analysis Task study of the Phase II Automation Deployment.

BACKGROUND

From the beginning of the Automation Program, the Postal Service chose to deploy automated equipment in phases. This allowed flexibility to scale the program up or down as dictated by such factors as mail volume and the availability of ZIP + 4, and to gain the benefit of technological advances that could arise.

Phase I equipment was optical character readers (OCRs) manufactured by both Pitney Bowes and Burroughs, and bar code sorters (BCSs) manufactured by Bell & Howell. The Phase I ROI was 22%.

The original definition of Phase II was OCRs and BCSs manufactured by ElectroCom (ECA). However, at the same time that the ECA equipment was being deployed, we had: redeployment of Phase I OCRs and BCSs, redeployment of MPLSHs, deployment of new MPLSHs, EZR Kits installed, Alhambra modifications, and Postal Soft (CRIS Sort). With so many major equipment programs being conducted simultaneously, it was not possible to isolate the effects of any one equipment program. Therefore, the definition of Phase II is all of the aforementioned equipment changes (loss or gain) that occurred at the affected sites during a discrete period of time.

Exhibit 1 is a list of the equipment programs involved in AFAT Phase II.

The period of time for the national cost study was Accounting Period 1, FY 1986, to Accounting Period 5, FY 1988. Accounting Period 5, FY 1988, was chosen for the after period studies because this was just prior to the first deployment of multiline equipment.

AFAT Phase II is basically the ElectroCom single-line OCR environment.

AFAT Phase III will be the conversion of Phase II single-line optical character readers to multiline capacity.

EXHIBIT 4 is a comparison of AFAT Phases I, II and III.

Some of the data used in the analysis was captured from national data bases and some of the data was captured at the site and recorded manually on data collection forms.

The following data was collected from national data bases:

- Distribution Workhour Savings for MOD I Offices
- Training
- Maintenance for NMICS A and B Offices
- Supervisory Hours

The following data was collected manually:

- Distribution Workhour Savings for MOD 2 Sites
- Locally Purchased Equipment
- Site Preparation
- Power
- Equipment Inventory
- Directory Costs
- Field AIS Costs
- Additional Space
- Readability Specialist
- Maintenance for Non-NMICS Offices

Because of the cyclical nature of Postal Service operations, a factor must be developed to "normalize" any study period (A/P) before it is annualized. The frozen data base uses 13 accounting periods of data. The factor is developed by calculating the multiplier necessary to proportion any given A/P to the average for the frozen data base year. Using this multiplier allows making valid comparisons and calculations using data from different A/Ps.

SCOPE AND METHODOLOGY

The study covers the period of time from Accounting Period 1 of Fiscal Year 1986 to Accounting Period 5 of Fiscal Year 1988. The study ends just prior to the start of the multiline environment.

No statistical sampling was used; data was collected from all 194 sites on all cost elements. Originally, there were 210 sites, however, 16 were dropped from the study. Exhibit 2 is a list of the study sites and Exhibit 3 contains a list of all cost elements involved in the study. Exhibit 2 also lists the sites dropped from the study and the reasons for those exclusions.

Several differences between the DAR and actual procedures and methodologies need to be pointed out:

- > The Phase II DAR only included 403 OCRs, 452 BCSs and 250 E2R kits. The investment costs and benefits for the additional equipment shown in Exhibit 1 were not included in the Phase II DAR.
- > At the end of Accounting Period 5, FY 1988, approximately 100 Phase II OCRs and 200 Phase II BCSs remained to be deployed by ECA. The equipment investment costs include the cost of the undeployed machines. The benefits of the undeployed machines will show up in the multiline ROI. The capital investment amount shown for each equipment type is the total contract amount. A sensitivity analysis indicated that if the cost of the undeployed equipment is subtracted from the cash flow, the ROI becomes 37%. However, since the contracts have been awarded, it is appropriate to show the investment now in Phase II.
- > Since the ZIP + 4 file and the field AIS costs were only extended to the end of FY 1986 in the Phase I ROI analysis, the total cost for those activities has been covered in the Phase II ROI analysis for the period covering FY 1987 to the last year of the analysis. Subsequent ROI analyses should only include increases in these cost elements.
- > The DAR operating period extended through FY 1998 whereas the analysis operating period only extends through FY 1997.
- > Several cost elements have been included in the analysis that were not included in the DAR: training, locally purchased equipment, power, supervisory hours, directory costs, field AIS, additional space, readability specialist.

ANALYSIS

The first step in the analysis was to identify the major cost elements involved.

The major cost elements are:

- * Equipment Investment
- * Start-Up Training Costs
- * Locally Purchased or Built Equipment to Enhance Automation
- * Site Preparation
- * Distribution Workhour Savings
- * Maintenance
- * Power
- * Supervisory Hours
- * Directory Costs
- * Field AIS
- * Additional Space
- * Readability Specialists
- * Ongoing Training Costs

The AFAT Phase II team effort was structured as follows:

> Headquarters was responsible for:

All policy and procedural statements relative to the AFAT II project.

Identification and definition of all cost and expense items to be included in the project.

Development of cost study methodology and data collection procedures.

Development and maintenance of all computer programs and systems used.

Collection of all training costs.

Collection of all maintenance data for NMICS A and B offices.

Determination of the run hours for all equipment involved and the number of kilowatts each machine demands.

Collection of all AIS costs.

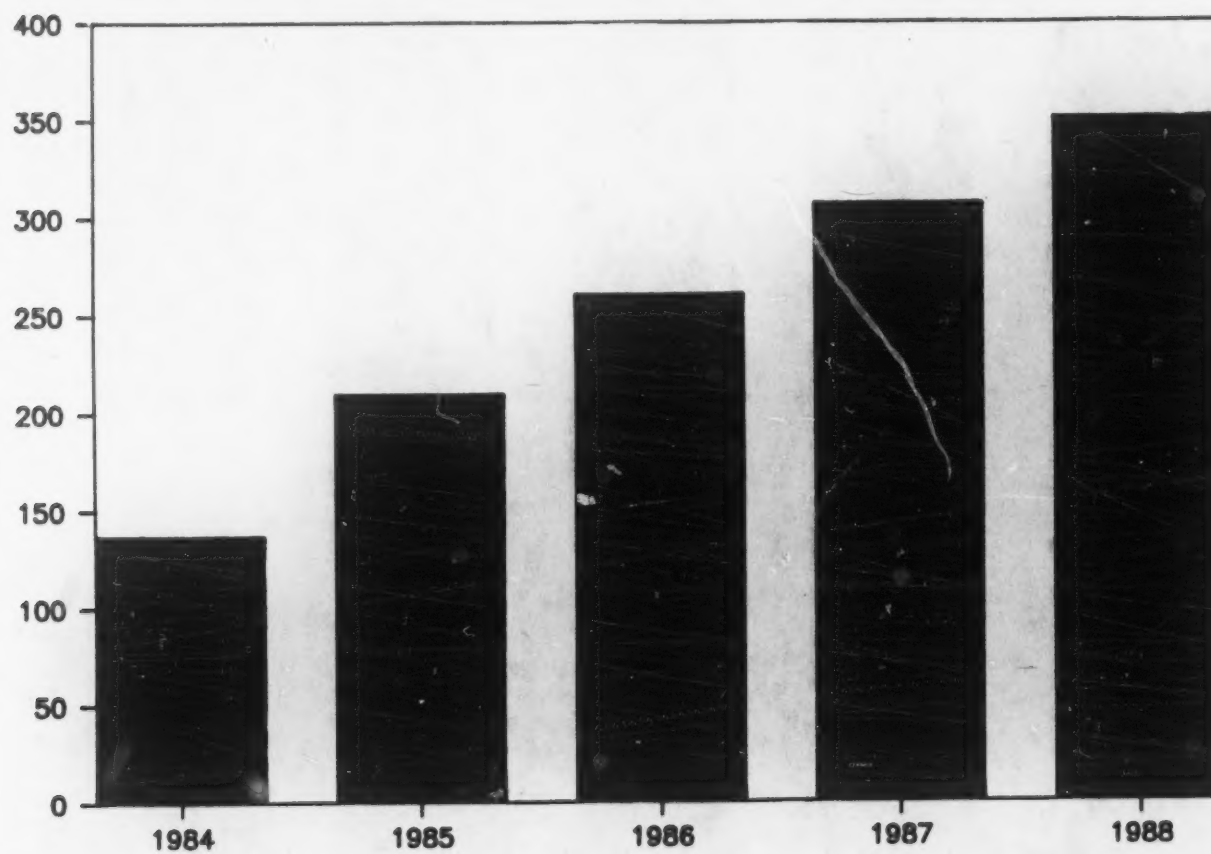
All analyses and determination of the return on investment.

Development of all final reports for senior management at Headquarters.

Collection of redeployment costs.

Collection of site preparation cost.

INTERNAL CRIMES NARCOTICS ARRESTS



> Regional Coordinators were responsible for:

Establishing and maintaining communications with the field.

Setting up and maintaining a filing system which included a file for each site.

Making sure the relevant training data was entered into the training activity reporting system (TARS).

Collecting maintenance data for non-NMICS offices.

Collecting the local cost/kilowatt hour for all affected sites.

Obtaining all additional space costs which were attributable solely to AFAT II.

Collecting all distribution workhour data.

Verifying the accuracy of all data sent to Headquarters.

Maintaining audit trails for data collected by the regions.

Collecting supervisory hours data.

Collecting locally purchased equipment data.

Obtaining the number of readability specialists at each site.

Verifying all equipment deployment schedules.

> Site Coordinators were responsible for:

Collecting and forwarding the data requested by the Regional Coordinators.

Verifying schedules and data for the Regional Coordinators.

Maintaining close communications with local mail processing regarding automation status and the changes in operations resulting from automation.

The analysis of each of the major cost elements follows:

> Equipment Investment

The equipment costs by type were:

ECA Optical Character Readers - \$200,870,741
 ECA Bar Code Sorters - \$79,109,840
 EZR Kits - \$11,038,150
 UNISYS MPLSMs - \$26,700,000
 Alhambra Modification - \$6,900,000
 Postal Soft - \$3,830,900
 Redeployed Equipment - \$5,481,024

Total Capital Investment amount is \$333.9 million.

> Initial Training

Costs to train personnel (management, supervisory and craft) in the use and maintenance of the equipment from when such charges began. These were the costs to train the necessary employees for the initial start-up of the equipment. The total initial training cost was \$25 million.

> Locally Purchased (built) Equipment

At some sites, the decision was made to locally purchase or build equipment to enhance the operation of the newly acquired automation equipment. The total cost was \$3.5 million.

> Site Preparation

All expenditures to prepare each site's facilities to accept and operate the new and relocated automation equipment. The total amount was \$6.24 million.

> Distribution Workhour Savings

The AFAT methodology uses actual accounting period mail volume at the time of the after study to calculate the workhours for both with and without Phase II equipment. The difference in these two calculations is the workhour savings.

In calculating the workhours required without the Phase II equipment, the capacity of the existing equipment was considered.

Between the times of the before and after study periods, in some cases there were other operational changes which were unrelated to the automation equipment. Any workhour savings or costs associated with those non-automation changes were factored out of the study results because the purpose of the study was to measure only the effects of the Phase II equipment.

The labor rate was escalated by six percent and the volume was escalated by three percent.

The total amount was \$3.1 billion savings.

> Maintenance

Includes the costs incurred for local and centrally procured material and contracts to maintain mechanization and automation equipment. Includes: preventive, corrective, operational and breakdown maintenance. Included are labor, materials and parts usage. Maintenance costs were escalated by six percent. The total amount was \$194 million.

> Power

Power includes the electricity in kilowatts used by letter mail processing equipment and components to distribute mail. Data was obtained from NMICS, MODS and the sites to calculate the power cost increases. Power costs were escalated by six percent. The total amount was \$43 million.

> Supervisory Hours

Supervisory hours in operations 698 (automation supervision mail processing, 699 (mechanization supervision mail processing), 700 (manual supervision mail processing), and 701 (supervisors other direct mail processing) were evaluated. The total amount was \$17 million.

> Directory Costs

The costs used to support the ZIP + 4 program include all of the activities necessary for the new equipment to be used with the 9-digit ZIP Code. Included are: maintenance and updating of the directory, and providing the correct ZIP + 4 codes to mailers. The total amount was \$133 million.

> Field AIS

The costs of field personnel who maintain and update the national ZIP + 4 directory. The total amount was \$342 million.

> Additional Space

Any additional space needed in another building which could be directly attributed to the Phase II equipment. The total amount was \$20 million.

> Readability Specialist

Coordinates and oversees the resolution of optical character reader and bar code sorter readability and processability problems within the assigned facility for the purpose of optimizing the processability of all letter mail on automated equipment. The total amount was \$80 million.

> Ongoing Training

Costs to train personnel (management, supervisory and craft) in the use and maintenance of the equipment from when such charges began. The total amount was \$127 million.

> Period of Analysis

All cash flow analyses are based on a ten-year operating period from 1988 to 1997. The investments for the cash flow commence in 1984.

All operating costs pertaining to USPS labor or utilities are escalated by six percent. All other operating costs are escalated by five percent.

SUMMARY AND CONCLUSIONS

To summarize, this analysis concluded that the actual return on investment that the U. S. Postal Service obtained for its Phase II automation investment was 28% versus 26% when adjusted for ZIP + 4 usage rate (20%), inflation factors and the elimination of projected carrier savings. When you only adjust the original DAR for the ZIP + 4 usage, the ROI comparison is 28% (actual) versus 32% (adjusted DAR). The adjusted cash flows were prepared by the Engineering and Technical Support Department.

While the introduction of state-of-the-art automation has provided substantial opportunity for productivity improvement, it has also introduced an element of complexity which must be properly managed if we are to achieve the full savings potential of automation. While this study was principally intended to measure the impact of a system, several individual sites were evaluated. This review indicated there can be a wide variance in the effectiveness of automation utilization from site to site.

The key factors in the most successful sites were clearly:

- * Advance Planning - Well defined implementation strategies encompassing training, maintenance, new operating plans and specific savings targets by operation.
- * Tracking and Control - Savings target were identified and communicated to affected operations. After implementation, performance was closely monitored against established targets.

With the added complexities in a multiline environment, effective implementation planning is paramount if we are to achieve potential productivity improvements.

EQUIPMENT PROGRAMS

- o 403 OCRs, 452 BCSs, (ElectroCom)
- o 139 Redeployed OCRs, BCSs, MPLSMs (Pitney Bowes, Burroughs, Bell and Howell)
- o 44 New MPLSMs
- o 407 EZR Kits
- o 222 CRIS Sorts
- o 654 Alhambra Kits

STUDY SITES FOR PHASE IINortheast RegionSite

- o Albany, NY
- o Bangor, ME
- o Binghampton, NY
- o Boston GMF, MA
- o Brockton, MA
- o Bronx, NY
- o Brooklyn, NY
- o Buffalo, NY
- o Buzzards Bay, MA
- o Church Street Station, NY
- o Clifton, NJ
- o Flushing, NY
- o Hackensack, NJ
- o Hartford, CT
- o James A. Farley GPO, NY
- o John F. Kennedy AMF, NY
- o Kilmer GMF, NJ
- o Manchester, NH
- o Mid-Island, (Hicksville, NY)
- o Morgan Station, NY
- o New Haven, CT
- o Newark, NJ
- o North Jersey Facility
- o Paterson, NJ
- o Portland, ME
- o Poughkeepsie, NY
- o Providence, RI
- o Red Bank, NJ
- o Rochester, NY
- o San Juan, PR
- o Springfield, MA
- o Stamford, CT
- o Staten Island, NY
- o Syracuse, NY
- o Trenton, NJ
- o Utica, NY
- o Waterbury, CT
- o Westchester, NY
- o Western Nassau, NY
- o White River Junction
- o Worcester, MA

Eastern RegionSite

- o Akron, OH
- o Baltimore, MD
- o Canton, OH
- o Charleston, WVA
- o Charleston, SC
- o Charlotte, NC
- o Charlottesville, VA
- o Cincinnati, OH
- o Clarksburg, WVA
- o Cleveland, OH
- o Columbia, SC
- o Columbus, OH
- o Dayton, OH
- o Erie, PA
- o Fayetteville, NC
- o Greensboro, NC
- o Greenville, SC
- o Harrisburg, PA
- o Johnstown, PA
- o Lancaster, PA
- o Lehigh Valley, PA
- o Lexington, KY
- o Louisville, KY
- o Lynchburg, VA
- o New Castle, PA
- o Norfolk, VA
- o Northern VA
- o Philadelphia, PA
- o Pittsburgh, PA
- o Raleigh, NC
- o Reading, PA
- o Richmond, VA
- o Roanoke, VA
- o Rocky Mt., NC
- o Scranton, PA
- o South Jersey (Bellma)
- o Southeastern, PA
- o Southern, MD
- o Toledo, OH
- o Washington, DC
- o Wilmington, DE
- o Youngstown, OH

Southern RegionSite

- o Amarillo, TX
- o Atlanta, GA
- o Augusta, GA
- o Austin, TX
- o Birmingham, AL
- o Chattanooga, TN
- o Corpus Christi, TX
- o Dallas, TX
- o Fort Myers, FL
- o Fort Worth, TX
- o Ft. Lauderdale, FL
- o Gainesville, FL
- o Houston, TX
- o Huntsville, AL
- o Jackson, MS
- o Jacksonville, FL
- o Knoxville, TN
- o Lakeland, FL
- o Little Rock, AR
- o Lubbock, TX
- o Macon, GA
- o McAllen, TX
- o Memphis, TN
- o Miami, FL
- o Mobile, AL
- o Montgomery, AL
- o Nashville, TN
- o New Orleans, LA
- o Oklahoma City, OK
- o Orlando, FL
- o Pensacola, FL
- o St. Petersburg, FL
- o San Antonio, TX
- o Shreveport, LA
- o Tallahassee, FL
- o Tampa, FL
- o Tyler, TX
- o Waco, TX
- o West Palm Beach, FL

Central RegionSite

- o Bloomington, IL
- o Champaign, IL
- o Chicago, IL
- o Colorado Springs, CO
- o Denver, CO
- o Des Moines, IA
- o Detroit, MI
- o Fargo, ND
- o Flint, MI
- o Fort Wayne, IN
- o Gary, IN
- o Green Bay, WI
- o Indianapolis, IN
- o Kansas City, MO
- o Kokomo, IN
- o Lafayette, IN
- o Lansing, MI
- o Lincoln, NE
- o Madison, WI
- o Milwaukee, WI
- o Minneapolis, MN
- o Muncie, IN
- o North Suburban, IL
- o Omaha, NE
- o Oshkosh, WI
- o Peoria, IL
- o Royal Oak, MI
- o Saginaw, MI
- o St. Louis, MO
- o St. Paul, MN
- o Sioux Falls, SD
- o South Suburban, IL
- o Springfield, IL
- o Springfield, MO
- o Wichita, KS

Western RegionSite

- o Albuquerque, NM
- o Alhambra, CA
- o Anaheim, CA
- o Anchorage, AK
- o Bakersfield, CA
- o Billings, MT
- o Boise, ID
- o El Paso, TX
- o Everett, WA
- o Fresno, CA
- o Honolulu, HI
- o Inglewood, CA
- o Las Vegas, NV
- o Long Beach, CA
- o Los Angeles TA & WPC
- o Midland, TX
- o North Bay, CA
- o Oakland, CA
- o Oxnard, CA
- o Pasadena, CA
- o Pasco, WA
- o Phoenix, AZ
- o Portland, OR
- o Reno, NV
- o Sacramento, CA
- o Salem, OR
- o Salinas, CA
- o Salt Lake City, UT
- o San Diego, CA
- o San Fran, CA
- o San Jose, CA
- o Santa Ana, CA
- o Santa Barbara, CA
- o Seattle, WA
- o Spokane, WA
- o Stockton, CA
- o Van Nuys, CA

SITES DROPPED FROM STUDY

Northeast Region (2)

- * Boston MHP/AMF
- * Bradley AMF

Eastern Region (1)

- * Suburban Maryland

Southern Region (9)

- | | |
|-------------------|-------------------|
| + Athens, GA | + Gulfport, MS |
| + Albany, GA | + Lafayette, LA |
| + Baton Rouge, LA | + Panama City, FL |
| + Columbus, GA | + Savannah, GA |
| | + Tulsa, OK |

Central Region (4)

- + Kalamazoo
- + St. Cloud
- + Grand Rapids
- + South Bend

- * Insufficient or incorrect data.
- + Schedule Change

COST ELEMENTS

- o Equipment Investment
- o Start-up Training Costs
- o Locally Purchased or Built Equipment to Enhance Automation
- o Site Preparation
- o Distribution Workhour Savings
- o Maintenance
- o Power
- o Supervisory Hours
- o Directory Costs
- o Field AIS
- o Additional Space
- o Readability Specialists
- o On-Going Training Costs

EXHIBIT 4

Comparison of AFAT Phases I, II and III

Capital and Expense (Estimated):

Phase I: \$234.3 million
 Phase II: \$450.2 million
 Phase III: \$205.1 million

Equipment:

Phase I: 252 OCRs, 248 BCSs
 Phase II: 403 OCRs, 452 BCSs
 139 Redeployed OCRs, BCSs, MPLSMs
 44 New MPLSMs
 407 E2R Kits
 222 CRIS Sorts
 654 Alhambra Kits

Phase III: Conversion of 403 OCRs

Sites:

Phase I: 120
 Phase II: 194
 Phase III: 177

VARIABLES NOT IN DAR

TRAINING	\$ 24,678,200
LOCALLY PURCHASED EQUIPMENT	\$ 3,575,470
POWER	\$ 42,809,900
SUPERVISORY HOURS	\$ 16,962,800
DIRECTORY COSTS	\$ 133,053,000
FIELD AIS	\$ 342,474,000
ADDITIONAL SPACE	\$ 19,952,900
READABILITY SPECIALISTS	\$ 79,708,800
ONGOING TRAINING	\$ 126,859,000
TOTAL OF MISCELLANEOUS COSTS	\$ 790,074,000

**FINANCIAL ANALYSIS
OF THE
AUTOMATION EQUIPMENT PROGRAM, PHASE 1
(AFAT PHASE 1)
EXECUTIVE SUMMARY**



**U.S. POSTAL SERVICE
DEPARTMENT OF THE CONTROLLER
COST BENEFIT DIVISION**

January 1986

FINANCIAL ANALYSIS
OF THE
AUTOMATION EQUIPMENT PROGRAM, PHASE 1
(AFAT PHASE 1)

EXECUTIVE SUMMARY

January 1986
Cost Benefit Division
Office of Budget and Cost
Department of the Controller

FINANCIAL ANALYSIS
OF THE
AUTOMATION EQUIPMENT PROGRAM, PHASE 1
(AFAT PHASE 1)

EXECUTIVE SUMMARY

The purpose of this project is to review and evaluate the U. S. Postal Service's financial position as a result of the procurement, deployment and use of the mail processing automation equipment. The objective is to develop and present a return on investment (ROI) percentage figure.

The evaluation encompasses all cost elements involved with the new equipment; Table 1 presents a brief description of each element. The equipment is the 252 Optical Character Readers/Channel Sorters (OCR/CS) and 248 Small Bar Code Sorters (SBCS) approved by the Board of Governors in 1980. No statistical sampling was used; data was collected from all 117 sites on all cost elements.

The basic approach was to use before and after studies. The before studies took place approximately three accounting periods (A/Ps) before the new equipment was deployed. As the equipment was deployed over about two years, so were the before studies. A single after study period was selected: A/P 5, FY 85. Both studies used one A/P of data. The after study (with automation) tabulated the actual costs generated. To obtain the cost without automation, factors from the before period and the mail volume of the after period were modelled to provide a simulation. The results from each site were aggregated to national data which was loaded into a cash flow model. Table 1 indicates how each cost element was treated.

The result of this 3-year effort is an ROI of 22%. It is recognized that the ROI is not really a single value but a range. Based on a Postal Inspection Service audit, testing several hypotheses and reviewing other scenarios, a range of 19.5% to 24.5% was identified. Table 2 presents the cash flow and ROI data. This ROI compares favorably with the Decision Analysis Report (DAR) of 1980 forecast of 22%. It can be concluded that the forecasting process used for Phase 1 is reasonable and that the operation of the new equipment is at the expected level of productivity.

TABLE 1

BRIEF DESCRIPTION OF COST ELEMENTS, DATA PROCESSING
AND ROI LOADING

- CAPITAL INVESTMENT

Equipment: Includes 252 Optical Character Readers (OCRs) and 248 Small Bar Code Sorters (SBCSSs). Data was obtained from the Office of Contracts based on the letters authorizing payments. This data is loaded into the cash flow model in the fiscal years the payments were authorized. Total capital investment amount in model is a \$251.7 million cost.

Initial Maintenance: All maintenance charges against the Automation equipment were captured for each site from the beginning of those charges through A/P-4, FY85. Data was collected from the National Maintenance Information Control System (NMICS) for each site and is in the cash flow model by the fiscal year that the charges occurred. Total amount in the model is a \$25.9 million cost.

Site Preparation: All expenditures to prepare each site's facilities to accept and operate the new Automation equipment. The expenditures were incurred through two methods:

1. Contract for entire job. Data was obtained from Office of Mechanization and Facility Development's tracking system.
2. Local site accomplishment. Data was obtained on the AFAT Site Preparation form requesting workhours used and local purchases.

Many sites used a combination of these methods. The sites' workhour data was converted to dollars and combined with any local purchases and contract dollars. Total amount is a \$7.7 million cost for the Automation equipment.

Initial Training: Costs to train personnel (management, supervisory and craft) in the use and maintenance of the equipment from when such charges began for each site through A/P-4, FY85. Training hours were obtained for each site from the Training Activity Reporting System (TARS) for each course involved in the program. Hours were converted to dollars and are in the model by the fiscal year incurred. Total amount is a \$19.2 million cost.

Program Management: Automation sites were permitted to charge workhours to special MODS numbers for staff effort to modify facility and operational plans to utilize the new equipment. The resultant charges were extracted from MODS and converted to dollars. The amount is a \$2.0 million cost.

OPERATING SAVING/EXPENDITURES

Maintenance: The difference in maintenance costs for processing the A/P-5, FY85, mail volumes with and without Automation. Basic data source is NMICS. For the after study, the total cost for letter mail machinery was extracted for A/P-5, FY85. To calculate the without Automation costs, factors were developed from each site's before study period. These factors were then applied to the A/P-5, FY85, mail volumes to determine the before requirements, then compared to the after cost to produce the difference (+ or -). The amount in the cash flow model is a \$450.5 million increase.

Power: The use of electricity due to the new and old letter sorting equipment. Data was obtained from NMICS on machine use at each site and from equipment specifications on power requirements. Modelling produced the difference between with and without Automation power usage on an annual basis. Local site power cost rates were used to develop the cost difference. The amount is a \$56.4 million increase.

DISTRIBUTION LABOR

The Distribution Labor savings (or increased costs) due to automation were obtained by subtracting the actual workhours needed to process A/P 5, FY 85, mail from the calculation of the workhours for processing the same mail volume without automation using the before Automation Post Office parameters. The savings (costs) for each site were extended to annual dollars. MODS data was processed through several models to insure that results, \$153.351 million, are accurate representations of the actual operations based on A/P-5, FY85. The total amount is a \$2.3 billion saving.

Allied Labor: Those hours recorded in the MODS that can be attributed to supporting letter mail processing. The costs for these hours were developed on a national basis, not site by site. The hours included are those in excess of hours needed to support the increased letter mail volume to consist of all workhours in Operation 020 and 1/2 of those in Operation 120. The "before" year is FY82; the "after" year is FY85. Volume data is letter, non-presort as reported by RCD. Hours are those reported by MODS in the Corporate Data Base. The amount in the analysis is a \$517.9 million cost.

Program Support: Activities necessary for the new equipment to be used with the 9-digit ZIP Code (ZIP + 4). These include 9-digit coding of the country, maintenance and updating of this coding, providing this coding to mailers, etc. It does not include monies for CRIS, carrier route presort or other address information systems. The source of the data is the Decision Analysis Reports for Phase 1 and Phase 2 of the equipment program. This Phase 1 analysis includes and is based on only 5-digit mail processing,

therefore these costs cease at the end of FY 86 as though the need for ZIP + 4 ceased at that time. The amount in this Phase 1 cash flow analysis is a \$117.5 million cost.

Additional Space: Cost of additional space directly attributable to the Automation program. Source of the data is contract information from the sites concerned. The amount is a \$5.1 million cost.

Pay Growth For Future Years: The Consumer Price Index (CPI) as forecast in the Strategic Business Plan 1985 was used as the factor for estimating pay growth. Cost elements that are primarily based on workhours have been adjusted with this factor for each year involved:

1986 - 3.7%	1989 - 5.4%	1992 - 5.6%
1987 - 4.5	1990 - 5.6	1993 - 5.6
1988 - 5.1	1991 - 5.6	1994 - 5.6

Mail Volume Estimates For Future Years: The cost of Distribution Labor and Allied Labor were adjusted for estimated increases in future years' total letter mail volume. The percentages are those used in the internal budget process and are by year:

1986 - 3.6%	1989 - 3.9%	1992 - 3.2%
1987 - 4.3	1990 - 3.8	1993 - 3.4*
1988 - 3.1	1991 - 1.7	1994 - 3.4*

* Not estimated by Budget Division; is the average of years 1986 through 1992.

Utility Costs For Future Years: These costs were inflated by 8% per year for the years 1986 through 1994.

Other Costs For Future Years: All other costs not mentioned above were inflated 6% per year for the years 1986 through 1994. This factor represents the estimated cost increase anticipated.

ROI FOR AFAT PHASE II FOR SIMAE-LINE UCR ENVIRONMENT

CASH FLOW ASSUMING ZERO RAIL GROWTH
(ALL DATA EXPRESSED IN THOUSANDS)

FISCAL YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	TOTALS
EQUIPMENT	-206076.	-79100	-32566.2	-16186.8											-133129.
INITIAL TRAINING			-7156.68	-14313.3	-3248.16										-24678.14
LOCALLY PURCHASED EQUIPMENT			-1036.88	-2073.77	-466.811										-3575.47
SITE PREPARATION			-1808.71	-3617.42	-810.801										-6236.93
DISTRIBUTION WORK-HOUR SAVINGS			7317.001	99172.59	231360.3	245241.9	259956.4	275553.8	292067.0	309612.2	328189.0	347880.3	368753.1	394678.3	3156442.
MAINTENANCE			-3922.36	-11767.0	-13525.3	-14336.9	-15197.1	-16108.9	-17075.4	-18100.0	-19146.0	-20337.1	-21557.4	-22850.8	-192964.
POWER			-865.704	-2597.11	-2985.18	-3166.29	-3354.15	-3555.40	-3768.72	-3994.85	-4234.56	-4488.61	-4757.93	-5043.41	-42849.9
SUPERVISORY HOURS			-307.026	-976.345	-1189.57	-1260.94	-1336.60	-1416.79	-1501.80	-1591.91	-1687.42	-1788.67	-1895.99	-2009.75	-16962.8
DIRECTORY COSTS			-14677.3	-12062.3	-10256.5	-9438.75	-8668.7	-79627.1	-11615.6	-12235.7	-12889.2	-13577.9	-14303.7	-15063.	-133653.
FIELD AIS				-22874.9	-24247.4	-25702.2	-27244.3	-28879.0	-30611.7	-32448.5	-34395.4	-36459.1	-38646.6	-40965.4	-362474.
ADDITIONAL SPACE		-1026.84	-4495.28	-1666.70	-1342.17	-1104.75	-1096.70	-1140.94	-1224.13	-1263.29	-1299.68	-1341.36	-1385.13	-1423.96	-1992.9
READABILITY SPECIALIST			-14.001	-2643.31	-5842.86	-6196.73	-6568.54	-6962.65	-7380.41	-7823.23	-8292.63	-8790.18	-9317.60	-9876.65	-79746.8
TRAINING			-2296.14	-7301.76	-8896.37	-9430.15	-9995.46	-10595.7	-11231.4	-11905.3	-12619.6	-13376.8	-14179.4	-15030.2	-126659.
NET CASH FLOW TOTALS	-206076.	-80126.8	-47351.9	-1503.30	156825.2	173789.3	185222.2	196425.5	208266.0	220869.4	234237.8	248409.0	263425.0	279374.3	1831794.

NPV = 8425,392
DISCOUNT RATE = 13.58

ROI = 26%

NOI FOR WFAT PHASE II FOR SINGLE-LINE O&A ENVIRONMENT

CASH FLOW ASSUMING 3% VOLUME GROWTH
(ALL DATA EXPRESSED IN THOUSANDS)

FISCAL YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	10/4.5
EQUIPMENT	-206076.	-79100	-32566.2	-14186.8											-355429.
INITIAL TRAINING			-7156.68	-14313.3	-3208.16										-24678.2
LOCALLY PURCHASED EQUIPMENT			-1036.88	-2073.77	-464.811										-375.47
SITE PREPARATION			-1808.71	-3617.42	-810.801										-6226.92
DISTRIBUTION MOW-HOUR SAVINGS			7610.434	103146.6	231360.3	252599.1	275787.7	301105.1	328744.5	358425.4	391874.8	427848.9	467125.4	511117.6	3656137.
MAINTENANCE			-3922.36	-11767.0	-13525.3	-14336.9	-15197.1	-16108.9	-17075.4	-18100.0	-19186.0	-20337.1	-21557.4	-22850.8	-193944.
POWER			-865.704	-2597.11	-2965.18	-3164.29	-3354.15	-3555.60	-3768.72	-3994.85	-4234.54	-4488.61	-4757.93	-5043.41	-42844.9
SUPERVISORY HOURS			-307.026	-976.345	-1189.57	-1260.94	-1336.60	-1416.79	-1501.80	-1591.91	-1687.62	-1788.67	-1895.99	-2009.75	-16962.8
DIRECTORY COSTS				-14677.3	-12042.3	-10256.5	-9938.75	-10468.7	-11027.1	-11615.6	-12235.7	-12889.2	-13577.9	-14303.7	-13963.3
FIELD AIS				-22874.9	-24247.4	-25702.2	-27244.3	-28879.0	-30611.7	-32448.5	-34395.4	-36459.1	-38646.6	-40965.4	-364474.
ADDITIONAL SPACE		-1026.84	-4695.28	-1646.70	-1302.17	-1104.75	-1098.70	-1140.94	-1224.13	-1263.29	-1299.68	-1341.36	-1385.13	-1429.96	-14952.9
READABILITY SPECIALIST			-14.001	-2643.31	-5042.86	-6196.73	-6568.54	-6962.65	-7380.61	-7823.23	-8292.63	-8790.18	-9317.60	-9876.65	-79748.8
TRAINING			-2296.14	-7301.74	-8896.37	-9430.15	-9993.96	-10595.7	-11231.4	-11905.3	-12619.6	-13376.8	-14179.4	-15020.2	-128829.
NET CASH FLOW TOTALS	-206076.	-80126.8	-47058.5	2470.705	156825.2	181146.5	201053.4	221976.8	244925.4	270182.5	297923.6	328377.6	361807.2	398505.5	2311430.
NPV =	8561,566														
DISCOUNT RATE =	13.5%														
NOI =	311														

Jan-86

AUTOMATION PROGRAM ANALYSIS TASK
RETURN ON INVESTMENT - AUTOMATIC EQUIPMENT PROGRAM - PHASE I

AFAT10010

Notes: (1) Includes Volume Increase and CPI Inflation
(2) All Data Expressed in Thousands
(3) Negative Numbers are in Parenthesis

BASE:

	FISCAL YEAR																
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	TOTAL
CAPITAL INVESTMENT:																	
EQUIPMENT			(1,491)	(30,425)	(90,205)	(93,185)	(20,400)										(251,709)
INITIAL MAINTENANCE					(3,253)	(16,066)	(6,592)										(25,911)
SITE PREPARATION					(4,426)	(3,069)	(216)										(7,711)
INITIAL TRAINING					(10,676)	(7,734)	(777)										(19,186)
PROGRAM MANAGEMENT					(992)	(862)	(153)										(2,007)
=====																	
OPERATING SAVINGS/EXPENSES:																	
MAINTENANCE							(22,725)	(37,207)	(39,439)	(41,006)	(44,314)	(46,973)	(49,791)	(52,779)	(55,946)	(59,307)	(450,481)
POWER					(713)	(2,006)	(3,707)	(4,004)	(4,324)	(4,670)	(5,043)	(5,447)	(5,883)	(6,353)	(6,861)	(7,400)	(56,471)
DISTRIBUTION LABOR					9,072	41,409	142,969	164,750	179,567	194,575	213,000	233,113	250,352	272,032	297,906	325,705	2,324,997
ALLIED LABOR					(2,900)	(13,000)	(31,351)	(36,350)	(39,627)	(42,939)	(47,023)	(51,444)	(55,249)	(60,209)	(65,743)	(71,705)	(517,997)
PROGRAM SUPPORT	(253)	(6,001)	(9,027)	(740)	(3,563)	(33,700)	(32,400)	(30,900)									(117,471)
ADDITIONAL SPACE				(7)	(70)	(705)	(333)	(353)	(374)	(397)	(420)	(446)	(472)	(501)	(531)	(563)	(5,179)
=====																	
TOTAL INVESTMENT	0	0	(1,491)	(30,425)	(117,552)	(120,915)	(36,130)	0	0	0	0	0	0	0	0	0	(306,521)
=====																	
TOTAL SAVINGS/COST	(253)	(6,001)	(9,027)	(753)	1,701	(6,002)	52,953	55,929	95,002	104,763	116,279	120,004	130,957	152,990	168,026	186,225	1,177,490
=====																	
TOTAL CASH FLOW	(253)	(6,001)	(11,521)	(31,100)	(115,772)	(120,917)	15,915	55,929	95,002	104,763	116,279	120,004	130,957	152,990	168,026	186,225	870,966
=====																	
DISCOUNTED @ 12%	(253)	(6,001)	(11,521)	(31,100)	(115,772)	(120,917)	15,915	55,929	95,002	104,763	116,279	120,004	130,957	152,990	168,026	186,225	
=====																	
DISCOUNTED @ 12%	(253)	(5,197)	(10,270)	(19,468)	(61,702)	(50,001)	6,204	10,635	27,203	25,500	24,190	22,903	21,110	19,072	10,743	17,671	40,340

ROI = 22.05%

YEAR	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
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UNITED STATES POSTAL SERVICE
COST AND REVENUE ANALYSIS
RATES AND CLASSIFICATION DEPARTMENT
FISCAL YEAR 1988

UNITED STATES POSTAL SERVICE

COST AND REVENUE ANALYSIS

FISCAL YEAR 1988

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SUMMARY OF REVENUE AND COSTS FOR MAJOR SERVICE CATEGORIES

Fiscal Year 1988
(in millions)

	Revenue (note 2)	Attributable Cost (note 2)	Revenue Less Attributable Cost	Volume Variable Cost (note 2)	Revenue as a Percent of Volume Variable Cost
First-class mail.....	\$21,397.7	\$13,177.9	\$ 8,219.8	\$13,177.9	162.4%
Priority Mail.....	1,344.6	714.6	630.0	714.6	196.2
Express Mail.....	\$27.7	\$17.2	210.5	292.9	180.2
Mailgram.....	11.9	17.1	(5.2)	17.1	69.0
Second-class mail:					
Within the county.....	96.8	108.1	(7.3)	108.1	93.1
Outside the county:					
No-profit publications.....	210.1	236.0	(25.9)	236.0	89.0
Classroom publications.....	7.7	8.8	(1.1)	8.8	87.5
Regular-rate publications.....	1,073.4	670.7	102.7	970.7	110.8
Fees.....	11.4	-	11.4	-	-
Total second-class mail.....	1,401.4	1,321.6	79.8	1,321.6	109.0
Third-class mail:					
Single piece rate.....	169.0	134.6	34.4	134.6	125.6
Bulk rate - regular.....	6,218.1	4,708.8	1,514.3	4,708.8	132.2
Bulk rate - nonprofit.....	669.6	873.6	(14.0)	873.6	96.4
Fees.....	53.1	-	53.1	-	-
Total third-class mail.....	7,299.8	5,712.0	1,587.8	5,712.0	127.8
Fourth-class mail:					
Parcels (zone rate).....	431.5	405.3	26.2	405.3	108.5
Bound printed matter.....	201.1	180.3	20.8	180.3	133.8
Total zone-rate mail.....	632.7	585.6	47.1	585.6	113.9
Special fourth-class rate.....	246.4	284.0	(37.6)	284.0	86.8
Library rate.....	67.6	57.3	0.2	57.3	100.3
Total fourth-class mail.....	896.5	896.9	39.6	896.9	104.4
Free mail for the blind and handicapped....	-	14.8	(14.8)	14.8	-
International mail (note 6).....	978.4	761.1	218.3	761.1	129.3
Total mail.....	33,896.9	22,933.2	10,963.7	22,933.2	146.0
Special services.....	1,087.6	1,081.3	(63.7)	821.3	112.9
Miscellaneous items (note 6).....	141.4	-	141.4	-	-
Total mail and services.....	35,074.9	24,024.5	11,050.4	23,930.3	147.2
Appropriations: revenue forgone.....	517.0	-	517.0	-	-
Total operating revenue.....	35,591.9	-	-	-	-
Investment income.....	346.9	-	-	-	-
Total.....	35,938.8	24,024.5	11,914.3	23,930.3	180.8%
All other costs.....	-	12,511.2	-	12,705.4	-
Total costs.....	-	\$36,535.7	-	\$36,635.7	-

See accompanying notes.

DETAIL OF ATTRIBUTABLE COSTS FOR MAJOR SERVICE CATEGORIES

Fiscal Year 1986
(in thousands)

	Volume Variable Cost (note 2)				Specific Fixed	Total Attributable
	Direct & Indirect Excl. Trans. & Leased	Transportation	Leased			
First-Class Mail.....	\$10,466,003	\$ 443,737	\$2,268,193	\$ -	-	\$13,177,933
Priority Mail.....	306,062	301,018	107,637	-	-	714,806
Express Mail.....	207,831	44,608	40,668	24,300	-	317,106
Mailgram.....	13,294	-	3,787	-	-	17,071
Second-class mail:						
Within the county.....	83,667	4,327	18,180	-	-	106,174
Outside the county:						
Nonprofit publications.....	189,821	28,208	38,178	-	-	256,207
Classroom publications.....	5,838	1,697	1,376	-	-	8,911
Regular-rate publications.....	671,673	133,326	186,707	-	-	991,706
Total second-class mail.....	950,997	166,457	243,440	-	-	1,360,894
Third-class mail:						
Single piece rate.....	97,134	6,646	30,822	-	-	134,602
Bulk rate - regular.....	3,616,938	274,649	612,262	-	-	4,503,849
Bulk rate - nonprofit.....	690,163	28,819	154,603	-	-	873,595
Total third-class mail.....	4,404,235	309,114	807,687	-	-	5,521,036
Fourth-class mail:						
Parcels (zone rate).....	147,101	197,121	61,069	-	-	405,291
Bound printed matter.....	88,086	67,672	24,961	-	-	180,719
Total zone-rate mail.....	235,187	264,793	86,030	-	-	585,910
Special fourth-class rate.....	121,278	108,683	63,137	-	-	293,108
Library rate.....	23,949	23,163	10,222	-	-	57,334
Total fourth-class mail.....	380,414	396,639	159,389	-	-	936,442
Free mail for the blind and handicapped...	9,948	1,738	3,129	-	-	14,815
International mail.....	288,684	422,348	70,063	-	-	781,095
Special and other services.....	637,608	-	383,778	169,946	-	1,191,332
Total all mail and services.....	\$17,808,701	\$2,078,325	\$4,247,227	\$104,246	-	\$24,238,509

See accompanying notes.

SUMMARY OF REVENUE, ATTRIBUTABLE COSTS, PIECES AND WEIGHT FOR MAJOR SERVICE CATEGORIES

Fiscal year 1988
(in millions)

	Revenue (note 2)		Attributable Cost (note 2)		Mail Volume		Mail Weight	
	\$	\$	\$	\$	Pieces	\$	Pounds	\$
First-Class Mail.....	\$21,397.7	\$9.55	\$13,177.9	\$4.98	94,254.2	\$2.85	3,161.6	17.05
Priority Mail.....	1,344.8	3.7	714.8	3.0	435.5	0.9	930.4	5.0
Express Mail.....	527.7	1.5	317.2	1.3	46.8	-	84.8	0.5
Mailgram.....	11.8	-	17.1	0.1	19.8	-	-	-
Second-class mail:								
Within the country.....	98.9	0.3	108.1	0.4	1,489.3	0.9	441.2	2.4
Outside the country:								
Nonprofit publications.....	210.1	0.6	236.0	1.0	2,300.3	1.5	881.5	3.0
Classroom publications.....	7.7	-	9.8	-	81.2	0.1	36.8	0.2
Regular-rate publications.....	1,073.4	3.0	970.7	4.0	8,824.7	4.1	3,078.8	18.6
Fees.....	11.4	-	-	-	-	-	-	-
Total second-class mail.....	1,401.4	3.9	1,321.8	5.4	10,493.4	6.8	4,119.1	22.2
Third-class mail:								
Single piece rate.....	186.0	0.5	134.8	0.6	176.1	0.1	78.3	0.4
Bulk rate - regular.....	6,218.1	17.3	4,703.8	19.6	51,215.5	32.3	6,845.8	36.8
Bulk rate - nonprofit.....	869.6	2.4	873.6	3.6	11,249.5	7.0	726.9	4.0
Fees.....	53.1	0.1	-	-	-	-	-	-
Total third-class mail.....	7,296.8	20.3	5,712.0	23.8	62,948.1	39.4	7,661.1	41.2
Fourth-class mail:								
Parcel (zone rate).....	431.5	1.2	405.3	1.7	142.0	0.1	831.5	4.5
Bound printed matter.....	201.1	0.6	150.3	0.6	308.9	0.2	782.9	4.2
Total zone-rate mail.....	632.7	1.8	555.6	2.3	450.9	0.3	1,615.5	8.7
Special fourth-class rate.....	248.4	0.7	284.0	1.2	173.0	0.1	508.3	2.7
Library rate.....	57.5	0.2	57.3	0.2	46.4	0.1	301.6	1.1
Total fourth-class mail.....	938.6	2.7	896.9	3.7	672.3	0.5	2,225.5	12.5
U.S. Postal service.....	-	-	-	-	530.4	0.3	84.0	0.3
Free mail for the blind and handicapped...	-	-	14.9	0.1	36.5	-	36.9	0.2
International mail (note 5).....	978.4	2.7	781.1	3.2	788.2	0.4	217.9	1.1
Total mail.....	33,895.9	94.3	22,833.2	95.5	180,480.8	100.05	18,572.8	100.05
Special services.....	1,057.6	3.0	1,081.3	4.5	-	-	-	-
Miscellaneous items (note 6).....	141.4	0.4	-	-	-	-	-	-
Total mail and services.....	35,074.9	97.8	23,914.5	100.05	-	-	-	-
Appropriations: revenue forgone.....	517.0	1.4	-	-	-	-	-	-
Total operating revenue.....	35,591.9	99.0	-	-	-	-	-	-
Investment income.....	348.9	1.0	-	-	-	-	-	-
Total.....	\$35,940.8	100.05	-	-	-	-	-	-

See accompanying notes.

SUMMARY OF ACCRUED COSTS BY SEGMENTS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1988
(in thousands)

Cost Segments and Components	Accrued Cost	Attributable Costs (note 2)				All Other Costs
		Direct	Variable		Specific Fixed	
			Indirect	Total		
1. Postmasters	\$ 1,177,778	\$ -	\$ 208,796	\$ 208,796	\$ -	\$ 889,980
2. Supervisors and technicians						
Mail processing	807,580	-	807,580	807,580	-	-
Window service	108,218	-	52,065	52,065	-	53,563
Administration and support time and attendance	114,700	-	78,331	78,331	-	36,369
Local services						
City carrier						
In-office	149,529	-	139,527	139,527	-	11,002
Elemental lead	40,473	-	40,473	40,473	-	-
Other street	171,167	-	43,389	43,389	-	127,778
Special delivery messengers						
In-office	557	-	494	494	-	163
Street	5,526	-	2,841	2,841	-	2,785
Other supervisors and technicians	1,413,462	-	440,186	440,186	-	973,277
Total supervisors	2,608,372	-	1,404,445	1,404,445	-	1,204,927
3. Clerks and mailhandlers, CAG A-J offices						
Mail processing	8,984,733	7,289,648	1,570,886	8,840,531	-	124,202
Window service	1,308,055	845,968	-	845,968	-	867,087
Administration support and miscellaneous	1,808,014	-	894,930	894,930	181,407	981,677
Total clerks	11,875,902	7,915,604	2,465,815	10,381,419	181,407	1,332,976
4. Clerks, CAG K offices	20,862	14,842	-	14,842	-	6,010
6. City delivery carriers						
In-office	3,308,280	2,700,201	358,814	3,057,015	-	351,265
7. City delivery carriers						
Out-of-office	4,844,832	688,254	962,249	1,840,503	-	2,804,229
Total city carriers	7,953,112	3,588,455	1,309,063	4,997,518	-	2,965,594
8. Vehicle service drivers	252,538	40,408	-	40,408	-	212,122
9. Special delivery messengers						
In-office	10,158	7,638	-	7,638	-	2,520
Street	87,048	43,964	-	43,964	-	43,082
Equipment maintenance and fees	37	53	-	53	-	(18)
Total special delivery messengers	97,241	51,645	-	51,645	-	45,596

See accompanying notes.

5

SUMMARY OF ACCRUED COSTS BY SEGMENTS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1988
(in thousands)

Cost Segments and Components	Accrued Costs	Attributable Costs (note 2)			Specific Fixed	All Other Costs
		Volume Variable		Total		
		Direct	Indirect			
10. Rural carriers						
Evaluated routes	\$1,647,804	\$ 848,404	\$ -	\$ 848,404	\$ -	\$ 899,100
Other routes	147,091	32,360	-	32,360	-	114,731
Equipment maintenance allowance	296,802	-	-	-	-	296,802
Total rural carriers	1,991,497	880,764	-	880,764	-	1,270,733
11. Custodial (maintenance) service	1,289,137	-	627,753	627,753	-	661,384
12. Motor vehicle service						
City delivery vehicle	312,379	-	196,123	196,123	-	116,256
Special delivery vehicle	11,215	-	5,963	5,963	-	5,392
All other	119,968	-	-	-	-	119,968
Total motor vehicle	443,562	-	202,078	202,078	-	241,476
13. Miscellaneous operating expenses						
Carfare, tolls and ferrage	39,883	-	13,761	13,761	-	36,122
Other	182,665	-	-	-	-	182,665
Total miscellaneous operating expenses	192,738	-	13,761	13,761	-	178,977
14. Transportation						
Domestic airmail	947,617	909,108	-	909,108	-	39,509
International airmail	300,666	300,666	-	300,666	-	-
Railroad line haul and other service	221,136	219,296	-	219,296	-	1,839
International water	155,919	155,919	-	155,919	-	-
Domestic water	17,122	15,680	-	15,680	-	1,572
Contract highway service	979,780	983,491	-	983,491	-	296,289
Total transportation	2,419,108	2,082,980	-	2,082,980	-	336,180

See accompanying notes.

SUMMARY OF ACCRUED COSTS BY SEGMENTS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

		Fiscal Year 1988 (in thousands)				
Cost Segment and Component	Accrued Cost	Attributable Costs (note 2)			Specific Fund	All Other Costs
		Variable		Total		
		Direct	Indirect			
15. Building occupancy						
Rents, fuel and utilities	\$ 704,188	\$ -	\$ 596,842	\$ 596,842	\$ -	\$ 107,346
Other	148,231	-	-	-	-	148,231
Total building occupancy	852,419	-	596,842	596,842	-	292,577
16. Supplies and services	682,781	6,818	322,919	329,433	-	634,348
17. Research and development	30,998	-	-	-	-	30,998
18. Administration and regional operations						
Headquarters	870,789	-	337,113	337,113	8,539	835,157
Postal service personnel	3,089,889	-	1,873,579	1,873,579	-	1,998,313
Total administration and regional	3,960,678	-	2,010,692	2,010,692	8,539	1,971,480
19. Support services	13,212	-	-	-	-	13,212
20. Depreciation and service wide costs						
Depreciation	510,498	-	341,080	341,080	-	169,418
Other	68,877	38,312	22,786	61,007	24,900	(27,893)
Total depreciation and service wide cost	579,375	38,312	363,866	402,077	24,900	141,488
Total costs	36,535,878	14,418,383	9,526,012	23,942,375	194,948	12,399,085
Final adjustments	-	(68,387)	(48,865)	(112,122)	-	112,122
Adjusted grand total	\$36,535,878	\$14,350,000	\$9,477,147	\$23,830,253	\$194,948	\$12,511,177

See accompanying notes.

UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Fiscal Year 1988

1. Cost and Revenue Analysis

The Cost and Revenue Analysis (CRA) is prepared annually by the United States Postal Service (Postal Service) for the year commencing October 1 and ending September 30 as an aid in determining that the Postal Service is meeting the statutory requirements under Title 39, U.S. Code, that its "... total income equals, as nearly as practicable, its costs" and that "... each class of mail or type of mail service bear the direct and indirect costs attributable to that class or service" The CRA presents allocations of the Postal Service's revenues and attributable costs among the categories of mail and services provided by the Postal Service during the year. Other revenue and costs are presented in the aggregate so as to provide a reconciliation to total revenue and costs as presented in the CRA to the total amounts shown in the annual statement of operations of the Postal Service.

CRA data are based on information from the postal system of accounts. The postal system of accounts, however, generally does not accumulate financial data by class and subclass of mail. Apportionment factors are therefore required for development of the data for CRA purposes. These apportionment factors are derived from various postal operational and statistical information sources. Some of these, such as the In-Office Cost System and the Revenue, Plans and Weight System, are dedicated to this purpose and involve extensive statistical compiling of postal activity during the year. Factors obtained from these systems are updated annually. Supporting information essential to the development of the CRA data is generally obtained from special studies.

2. Attributable Costs

Only "attributable" costs of the Postal Service are apportioned among the classes and subclasses of mail and other services shown in the CRA. Costs are generally considered to be attributable if they are determined to vary with changes in volume, or in certain cases, if they are determined to arise solely from a particular service. "Volume variable" costs equal attributable costs less costs which arise solely from a particular service. The designation of costs as attributable relies mainly on methods and definitions established in previous annual developments of attributable costs for CRA purposes and considered acceptable in light of Postal Rate Commission proceedings and other proceedings of record. For the year ended September 30, 1988, attributable costs comprised 86% of all costs incurred by the Postal Service.

3. Fees

Fees associated with a specific class or subclass of mail are included in the reported revenue for that class or subclass.

4. Miscellaneous Adjustments

The following differences exist between the revenues shown in the Fiscal Year 1988 Annual Report of the Postal Service (AR) and the Fiscal Year 1988 CRA:

- a) Penalty and franked revenue of \$1,078.7 million in the AR is included with classes, subclasses, rate categories and special services revenue in the CRA.
- b) The money order fleet of \$39.1 million included with interest income in the AR is included with special services revenue in the CRA.
- c) Miscellaneous revenue of \$141.4 million included with special services revenue in the AR is reported as miscellaneous revenue in the CRA.

UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Fiscal Year 1989

6. International Mail

International mail costs include costs attributable to both U. S. origin and foreign origin mail. Volume statistics, however, do not include foreign origin mail.

Beginning in Fiscal Year 1989, all revenue, volume and costs associated with international letters and cards destined for Canada or Mexico have been classified in the CRA as airmail. Some of these revenue, volume and costs have previously been classified as surface mail.

6. Miscellaneous Items

Miscellaneous items include philatelic sales, fees, fines, uncashed money from dead letters, sales of postal cards and services performed for government agencies and private contractors.

7. Franked and Other Government Penalty Mail

Beginning in Fiscal Year 1989, all franked and other government agency penalty revenues, volumes and attributable costs have been included in the CRA in the class, subclass, rate or special service categories with which they are associated.

8. Other

All figures in the CRA are rounded; detail may not add to totals. Percentages are rounded to the nearest decimal.

- Denotes zero value.

() Denotes negative value.

STATISTICS BY CLASS OF MAIL

FIRST-CLASS MAIL, PRIORITY MAIL, EXPRESS MAIL, AND MAILGRAM

Fiscal Year 1999

Category REVENUE AND COST RELATIONSHIP	Letters and Special Parcels (including flats & ZIPs)		Cards			Total First- Class Mail	Priority Mail	Express Mail	Mail- gram
	Single	Presort	Postal	Private					
				Single	Presort				
Per piece (cents):									
Revenue (note 1).....	27.9	30.9	14.5	15.2	12.4	25.4	306.8	1,158.6	80.2
Attributable cost.....	19.7	9.9	7.2	11.2	6.1	15.8	184.1	696.2	57.0
Revenue less attributable cost.....	9.2	11.1	7.3	4.1	6.3	9.6	124.7	461.4	(26.7)
Per pound (cents):									
Revenue (note 1).....	699.9	827.2	2,920.0	2,580.1	2,084.9	679.9	146.1	623.9	-
Attributable cost.....	467.9	261.6	1,449.9	1,867.9	1,019.9	416.9	77.9	375.0	-
Revenue less attributable cost.....	231.9	565.7	1,464.1	692.2	1,046.9	260.0	68.6	248.9	-
VOLUME STATISTICS									
Pieces (thousands).....	86,719,111	24,404,242	809,467	2,579,778	1,089,570	94,394,188	435,467	45,826	19,817
Weight per piece (ounces).....	0.6	0.6	0.1	0.1	0.1	0.6	32.8	29.7	-
Weight per cubic foot (pounds).....	-	-	-	-	-	15.2	19.2	9.0	-
Weight in pounds (thousands).....	2,290,967	916,090	2,632	15,490	6,921	2,181,907	900,364	94,592	-
Cubic feet (thousands).....	-	-	-	-	-	206,214	69,494	9,365	-
STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION									
Estimated average haul via purchased transportation (miles).....	N/A	N/A	N/A	N/A	N/A	589	843	987	-
Estimated ton-miles via purchased transportation (thousands).....	525,849	223,479	564	3,668	1,728	754,497	369,020	57,517	-
Estimated cubic feet-miles via purchased transportation (thousands).....	69,044,338	29,371,551	100,447	929,555	216,889	99,362,480	55,719,146	5,204,870	-

See accompanying notes.

SECOND-CLASS MAIL

Fiscal Year 1968

Category	Total Within the County	Outside the County			Total Second-Class Mail
		Nonprofit Publications	Classroom Publications	Regular Rate Publications	
REVENUE AND COST RELATIONSHIP					
Per piece (cents):					
Revenue (note 1).....	8.8	9.1	12.6	16.2	13.4
Attributable cost.....	7.1	10.2	14.4	14.7	13.8
Revenue less attributable cost.....	(0.5)	(1.1)	(1.8)	1.5	0.6
Per pound (cents):					
Revenue (note 1).....	22.4	27.4	21.0	24.9	24.0
Attributable cost.....	24.0	42.0	24.1	21.5	22.1
Revenue less attributable cost.....	(1.6)	(4.6)	(3.1)	3.4	1.9
VOLUME STATISTICS					
Pieces (thousands).....	1,480,271	2,206,260	81,223	6,624,601	10,483,435
Weight per piece (ounces).....	4.7	2.9	9.6	7.4	6.3
Weight per cubic foot (pounds).....	18.2	18.2	18.1	19.0	18.8
Weight in pounds (thousands)					
Local.....	219,988	4,122	24	153,945	378,977
Nonlocal.....	222,286	527,332	20,646	2,624,601	3,741,184
Total pounds (thousands).....	441,242	531,454	20,670	2,678,546	4,119,141
Cubic feet (thousands)					
Local.....	11,060	229	-	8,069	20,288
Nonlocal.....	12,127	20,618	2,018	153,550	196,872
Total cubic feet (thousands).....	24,086	20,647	2,018	161,619	218,668
STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION					
Estimated average haul via purchased transportation (miles).....	14	801	662	729	711
Estimated ton-miles via purchased transportation (thousands).....	1,630	260,960	11,919	1,026,475	1,329,600
Estimated cubic feet-miles via purchased transportation (thousands).....	186,781	27,675,124	1,815,871	112,054,547	141,114,838

See accompanying notes.

THIRD-CLASS MAIL

Fiscal Year 1998

Category	Bulk Rate Regular			Bulk Rate Nonprofit			Total Third-Class Mail	
REVENUE AND COST RELATIONSHIP	Single Piece Rate	Carrier Presort	Other	Total	Carrier Presort	Other		Total
Per piece (cents):								
Revenue (note 1).....	96.0	10.3	14.2	12.0	5.5	8.2	7.6	11.5
Attributable cost.....	78.4	5.1	14.3	9.1	4.1	8.7	7.6	9.0
Revenue less attributable cost.....	19.6	5.2	(0.1)	2.9	1.4	(0.6)	(0.2)	2.5
Per pound (cents):								
Revenue (note 1).....	215.9	73.0	117.9	90.9	87.5	125.6	118.3	95.4
Attributable cost.....	171.9	25.9	118.5	88.7	85.9	133.2	130.2	74.7
Revenue less attributable cost.....	44.0	47.1	(0.6)	22.1	21.6	(7.6)	(1.9)	20.7
VOLUME STATISTICS								
Pieces (thousands).....	176,112	29,217,488	22,582,001	51,819,489	2,245,814	9,008,986	11,249,499	63,248,100
Weight per piece (ounces).....	7.1	2.3	1.9	2.1	1.0	1.0	1.0	1.9
Weight per cubic foot (pounds).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	19.4
Weight in pounds (thousands).....	78,299	4,128,737	2,717,102	6,846,839	140,457	886,482	728,919	7,651,057
Cubic feet (thousands).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	386,058
STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION								
Estimated average haul via purchased transportation (miles).....	852	N/A	N/A	618	N/A	N/A	454	602
Estimated ton-miles via purchased transportation (thousands).....	23,888	1,008,377	789,725	1,778,101	18,728	108,001	127,729	1,929,717
Estimated cubic foot-miles via purchased transportation (thousands).....	3,492,631	109,022,211	78,299,485	181,880,673	2,029,917	11,980,086	13,919,982	199,083,289

See accompanying notes.

FOURTH-CLASS MAIL

Fiscal Year 1968

Category	Total Parcels (Zone Rate)	Bound Printed Matter	Special Fourth-Class Rate	Library Rate	Total Fourth-Class Mail
<u>REVENUE AND COST RELATIONSHIP</u>					
Per piece (cents):					
Revenue (note 1).....	308.9	65.1	142.4	118.8	138.3
Attributable cost.....	285.4	49.7	164.1	118.4	133.4
Revenue less attributable cost.....	18.5	15.4	(21.7)	0.4	5.9
Per pound (cents):					
Revenue (note 1).....	51.9	25.7	48.8	28.5	40.3
Attributable cost.....	48.7	19.2	55.9	28.4	38.6
Revenue less attributable cost.....	3.2	6.5	(7.4)	0.1	1.7
<u>VOLUME STATISTICS</u>					
Pieces (thousands).....	141,991	308,961	173,000	48,421	672,293
Weight per piece (ounces).....	93.7	40.8	47.0	88.8	55.3
Weight per cubic foot (pounds).....	7.9	18.1	11.0	14.9	10.9
Weight in pounds: (thousands)					
Local.....	23,431	183,727	4,120	2,380	213,828
Nonlocal.....	808,102	800,213	804,132	199,264	2,111,711
Total pounds (thousands).....	831,533	783,940	808,252	201,644	2,325,326
Cubic feet: (thousands)					
Local.....	2,979	11,440	378	183	14,968
Nonlocal.....	101,875	37,194	45,839	13,680	198,368
Total cubic feet (thousands).....	104,854	48,634	46,215	13,823	213,326
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>					
Estimated average haul via purchased transportation (miles).....	994	526	1,294	731	908
Estimated ton-miles via purchased transportation (thousands).....	401,780	157,787	326,206	72,688	958,860
Estimated cubic foot-miles via purchased transportation (thousands).....	101,171,272	19,542,808	59,320,473	9,985,798	180,000,431

See accompanying notes.

U. S. POSTAL SERVICE AND FREE MAIL FOR THE BLIND AND HANDICAPPED

Fiscal Year 1968

<u>Category</u>	<u>U.S. Postal Service</u>	<u>Free Mail For The Blind and Handicapped</u>
<u>REVENUE AND COST RELATIONSHIP</u>		
Per piece (cents):		
Revenue.....	N/A	N/A
Attributable cost.....	N/A	38.5
Revenue less attributable cost.....	N/A	(38.5)
Per pound (cents):		
Revenue.....	N/A	N/A
Attributable cost.....	N/A	48.2
Revenue less attributable cost.....	N/A	(48.2)
<u>VOLUME STATISTICS</u>		
Pieces (thousands).....	530,402	38,528
Weight per piece (ounces).....	1.9	12.8
Weight per cubic foot (pounds).....	15.0	11.8
Weight in pounds (thousands).....	84,014	30,768
Cubic feet (thousands).....	4,370	2,715
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>		
Estimated average haul via purchased transportation (miles).....	423	508
Estimated ton-miles via purchased transportation (thousands).....	11,946	7,236
Estimated cubic feet-miles via purchased transportation (thousands).....	1,481,325	1,300,541

See accompanying notes.

INTERNATIONAL MAIL
(note 3)

Fiscal Year 1968

	Surface			Airmail			Total Inter- national Mail
	Letters and Cards	Other Articles	Parcel Post	Letters and Cards	Other Articles	Parcel Post	
Attributable cost (millions).....	\$48.2	\$176.7	\$91.1	\$277.6	\$116.6	\$82.1	\$761.1
<u>VOLUME STATISTICS</u>							
Pieces to foreign destinations (thousands).....	44,384	129,546	3,443	616,146	29,780	3,968	726,226
Weight per piece (ounces).....	1.8	12.6	151.4	1.0	13.9	92.1	4.8
Weight per cubic foot (pounds).....	11.6	16.6	7.4	12.1	12.0	9.7	11.9
Weight in pounds (thousands).....	4,649	100,963	33,689	31,224	26,843	22,847	217,999
Cubic feet (thousands).....	394	8,484	4,426	2,690	2,148	2,381	19,408
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>							
Estimated average domestic haul (miles).....	649	1,081	1,088	297	417	294	787
Estimated ton-miles, domestic haul (thousands).....	1,474	64,499	18,873	4,171	8,392	3,382	86,770
Estimated cubic foot-miles, domestic haul (thousands).....	266,126	6,978,633	4,682,934	690,263	991,060	693,131	12,982,060

See accompanying notes.

SPECIAL SERVICES

Fiscal Year 1998

Category								
REVENUE AND COST RELATIONSHIP	Registry	Certified	Insurance	Collect on Delivery	Special Delivery	Money Orders	Stamped Envelopes	Post Office Box
Per transaction (cents):								
Revenue.....	800.3	347.9	137.1	218.3	388.5	125.4	N/A	N/A
Attributable cost.....	815.1	311.1	121.9	247.0	483.7	74.2	N/A	N/A
Revenue less attributable cost.....	(114.8)	36.8	15.2	(31.7)	(95.2)	51.2	N/A	N/A
Revenue (millions).....	187.4	261.5	48.2	30.7	30.8	180.7	22.9	295.6
Attributable cost (millions):								
Variable cost.....	74.5	198.4	27.4	30.1	14.8	82.8	1.1	308.3
Other direct.....	5.0	-	15.4	3.6	-	5.8	10.8	-
Total variable cost.....	80.1	198.4	42.8	33.7	14.8	88.3	11.7	308.3
Specific fixed cost.....	180.3	-	-	-	11.1	9.5	-	-
Total attributable cost.....	230.5	198.4	42.8	33.7	25.7	106.9	11.7	308.3
Revenue less attributable cost (millions).....	(43.0)	63.1	5.3	(3.0)	(5.1)	73.8	11.2	(12.7)
Revenue as a percent of attributable cost.....	81.2%	132.1%	112.6%	87.2%	80.2%	189.0%	196.7%	96.6%
VOLUME								
Transactions (thousands).....	57,464	178,755	36,148	9,804	5,313	144,048	N/A	N/A

See accompanying notes.

UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS -- STATISTICS BY CLASS OF MAIL
Fiscal Year 1988

1. Fees

Fees associated with a specific class or subclass of mail are included in the reported revenue for that class or subclass.

2. Franked and Other Government Penalty Mail

Beginning in Fiscal Year 1988, all franked and other government agency penalty revenues, volume and attributable costs have been included in the CRA in the class, subclass, rate or special service categories with which they are associated.

3. International Mail

International mail costs include costs attributable to both U. S. origin and foreign origin mail. Volume statistics, however, do not include foreign origin mail.

Beginning in Fiscal Year 1988, all revenue, volume and costs associated with international letters and cards destined for Canada or Mexico have been classified, in the CRA as airmail. Some of these revenue, volume and costs have previously been classified as surface mail.

4. Other

All figures in the CRA are rounded; detail may not add to totals. Percents are rounded to the nearest decimal.

N/A Denotes not applicable.

- Denotes zero value.

() Denotes negative value.



UNITED STATES POSTAL SERVICE
COST AND REVENUE ANALYSIS
RATES AND CLASSIFICATION DEPARTMENT
FISCAL YEAR 1987

UNITED STATES POSTAL SERVICE

COST AND REVENUE ANALYSIS

FISCAL YEAR 1987

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STATEMENT OF REVENUE AND COSTS FOR MAJOR SERVICE CATEGORIES

Fiscal Year 1987
(In millions)

	Revenue (note 2)	Attributable Cost (note 2)	Revenue Less Attributable Cost	Volume Variable Cost (note 2)	Revenue as a Percent of Volume Variable Cost
First-Class Mail.....	\$19,786.0	\$11,886.1	\$ 7,400.9	\$11,886.1	185.0%
Priority Mail.....	1,086.6	808.6	278.1	808.6	214.3
Express Mail.....	489.7	259.2	240.5	221.1	226.6
Mailgram.....	19.4	16.7	(2.7)	16.7	86.4
Second-class mail:					
Within the country.....	99.7	90.9	8.8	90.9	109.4
Outside the country:					
Nonprofit publications.....	196.1	308.6	(119.4)	308.6	99.6
Classroom publications.....	6.2	7.9	(1.7)	7.3	84.9
Regular-rate publications.....	976.2	808.9	167.3	808.9	190.8
Postage.....	11.6	-	11.6	-	-
Total second-class mail.....	1,279.8	1,112.7	167.1	1,112.7	115.0
Third-class mail:					
Single piece rate.....	182.9	109.6	73.3	109.6	147.8
Bulk rate - regular.....	5,111.7	3,801.4	1,310.3	3,801.4	134.5
Bulk rate - nonprofit.....	636.6	736.6	(100.0)	736.6	113.6
Postage.....	47.3	-	47.3	-	-
Total third-class mail.....	6,147.6	4,640.6	1,507.0	4,640.6	132.5
Fourth-class mail:					
Parade (zone rate).....	416.6	368.6	48.0	368.6	113.9
Bound printed matter.....	149.1	110.9	38.2	110.9	134.4
Total zone-rate mail.....	565.7	479.5	86.2	479.5	120.3
Special fourth-class rate.....	309.9	261.3	48.6	261.3	81.1
Library rate.....	54.6	55.9	(1.3)	55.9	97.7
Total fourth-class mail.....	922.9	776.8	146.1	776.8	120.0
Government mail.....	999.9	443.0	556.9	443.0	225.5
Free mail for the blind and handicapped.....	-	11.9	(11.9)	11.9	-
International mail (note 4).....	967.2	708.4	258.8	708.4	136.1
Total mail.....	30,479.6	19,863.6	10,616.0	19,863.6	153.8
Special services (note 5).....	975.0	968.0	7.0	968.0	100.3
Miscellaneous items (note 5).....	211.4	-	211.4	-	-
Total mail and services.....	31,666.0	20,831.6	10,734.4	20,831.6	152.0
Appropriations: revenue forgone.....	680.0	-	680.0	-	-
Total operating revenue.....	32,346.0	-	-	-	-
Investment income.....	291.4	-	291.4	-	-
Total.....	\$32,637.4	20,831.6	\$11,805.8	\$20,831.6	157.6%
All other costs.....		11,919.4		12,087.7	
Total costs.....		\$32,751.0		\$32,751.0	

See accompanying notes.

DETAIL OF ATTRIBUTABLE COSTS FOR MAJOR SERVICE CATEGORIES

	Fiscal Year 1987 (in thousands)				
	Volume Variable Cost (note 2)				
	Direct & Indirect Excl. Trans. & Leased	Transportation	Leased	Specific Fixed	Total Attributable
First-Class Mail.....	\$ 9,348,058	\$ 261,838	\$1,787,413	\$ -	\$11,396,089
Priority Mail.....	224,518	204,847	77,107	-	806,470
Express Mail.....	183,014	28,910	29,182	22,067	953,183
Mailgram.....	12,806	-	3,197	-	15,702
Second-class mail:					
Within the county.....	72,908	3,215	14,472	-	90,593
Outside the county:					
Nonprofit publications.....	149,708	25,483	21,342	-	205,498
Classroom publications.....	5,000	1,210	1,108	-	7,327
Regular-rate publications.....	573,138	108,411	129,738	-	808,379
Total second-class mail.....	800,744	136,899	175,658	-	1,112,681
Third-class mail:					
Single piece rate.....	75,527	6,107	21,987	-	108,621
Bulk rate - regular.....	2,945,380	287,848	898,213	-	3,801,439
Bulk rate - nonprofit.....	881,314	22,208	122,028	-	1,025,548
Total third-class mail.....	3,902,221	296,163	1,042,228	-	4,840,608
Fourth-class mail:					
Parcels (zone rate).....	129,257	130,173	49,994	-	309,474
Bound printed matter.....	52,280	40,824	19,061	-	110,925
Total zone-rate mail.....	181,537	230,947	67,045	-	469,506
Special fourth-class rate.....	107,880	96,488	44,189	-	251,325
Library rate.....	24,882	20,588	10,260	-	55,730
Total fourth-class mail.....	314,079	347,613	121,494	-	776,582
Government mail.....	304,588	71,985	68,473	-	443,006
Free mail for the blind and handicapped...	7,988	1,823	2,306	-	11,997
International mail.....	280,898	288,847	81,087	-	708,432
Special and other services.....	475,829	-	223,128	147,249	866,004
Total all mail and services.....	\$15,421,978	\$1,800,082	\$3,369,221	\$179,318	\$20,800,607

See accompanying notes.

SUMMARY OF REVENUE, ATTRIBUTABLE COSTS, PIECES AND WEIGHT FOR MAJOR SERVICE CATEGORIES

Fiscal Year 1987
(in millions)

	Revenue (note 3)		Attributable Cost (note 2)		Mail Volume		Mail Weight	
	\$	\$	\$	\$	Pieces	\$	Pounds	\$
First-Class Mail.....	318,788.0	57.55	311,386.1	54.75	78,889.3	51.25	2,970.4	18.85
Priority Mail.....	1,086.6	3.3	808.5	2.4	954.3	0.3	783.1	4.3
Express Mail.....	499.7	1.5	253.2	1.2	41.5	-	78.9	0.4
Mailgram.....	13.4	-	15.7	0.1	21.9	-	-	-
Second-class mail:								
Within the country.....	99.7	0.3	80.6	0.4	1,479.5	1.0	419.4	2.4
Outside the country:								
Nonprofit publications.....	186.1	0.6	206.5	1.0	2,346.4	1.5	541.6	3.0
Classroom publications.....	6.2	-	7.3	-	46.6	-	33.4	0.2
Regular-rate publications.....	975.2	3.0	808.5	2.9	6,549.9	4.3	3,018.0	18.9
Post.....	11.6	-	-	-	-	-	-	-
Total second-class mail.....	1,279.8	3.9	1,112.7	5.3	10,824.3	6.8	4,012.4	22.5
Third-class mail:								
Single piece rate.....	182.9	0.5	109.6	0.5	188.5	0.1	79.9	0.4
Bulk rate - regular.....	9,111.7	15.9	9,801.4	18.3	46,663.2	31.6	6,422.2	38.9
Bulk rate - nonprofit.....	836.6	2.6	736.6	3.6	11,021.6	7.1	675.9	3.8
Post.....	47.9	0.1	-	-	-	-	-	-
Total third-class mail.....	9,147.6	19.0	4,840.6	22.4	59,733.2	38.8	7,188.0	40.1
Fourth-class mail:								
Parcels (zone rate).....	415.9	1.3	388.5	1.7	143.0	0.1	836.9	4.7
Bound printed matter.....	149.1	0.5	310.9	0.5	296.5	0.2	629.4	3.5
Total zone-rate mail.....	564.7	1.8	499.4	2.2	349.5	0.3	1,466.2	8.2
Special fourth-class rate.....	308.8	0.6	251.3	1.2	184.9	0.1	510.7	2.9
Library rate.....	54.5	0.2	55.6	0.3	51.9	-	301.9	1.1
Total fourth-class mail.....	822.9	2.6	776.6	3.7	315.2	0.4	2,178.7	12.2
Government mail.....	988.3	2.7	443.0	2.1	3,151.9	2.0	486.7	2.6
Free mail for the blind and handicapped...	-	-	11.9	0.1	41.2	-	42.0	0.2
International mail (note 4).....	967.2	2.9	708.4	3.3	777.8	0.5	213.8	1.1
Total mail.....	30,479.5	95.7	19,863.6	95.3	153,960.9	100.0	17,879.0	100.0
Special services (note 5).....	573.0	3.1	988.0	4.7	-	-	-	-
Miscellaneous items (note 5).....	111.4	0.3	-	-	-	-	-	-
Total mail and services.....	31,863.9	97.1	20,851.6	100.0	-	-	-	-
Appropriations: revenue forgone.....	880.0	2.0	-	-	-	-	-	-
Total operating revenue.....	32,713.9	99.1	-	-	-	-	-	-
Investment income.....	291.4	0.9	-	-	-	-	-	-
Total.....	32,805.3	100.0	-	-	-	-	-	-

See accompanying notes.

SUMMARY OF ACCRUED COSTS BY SEGMENTS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1987
(In thousands)

Cost Segments and Components	Accrued Cost	Attributable Costs (note 2)				All Other Costs		
		Value Available		Total	Specific Fixed			
		Direct	Indirect					
1. Postmasters	\$1,111,375	0	-	\$197,007	\$197,007	0	-	\$914,268
2. Supervisors and technicians								
Mail processing	553,781			553,781	553,781	-	-	
Window service	104,412	-	-	49,539	49,539	-	-	54,873
Administration and support time and attendance	111,090	-	-	73,232	73,232	-	-	38,406
Local service								
City carrier								
In-office	135,615	-	-	135,165	135,165	-	-	9,450
Elemental load	31,008	-	-	31,008	31,008	-	-	-
Other street	170,439	-	-	36,091	36,091	-	-	134,348
Special delivery messengers								
In-office	829	-	-	473	473	-	-	156
Street	5,393	-	-	2,730	2,730	-	-	2,673
Other supervisors and technicians	1,998,809	-	-	221,101	221,101	-	-	1,078,608
Total supervisors	2,419,539	-	-	1,104,085	1,104,085	-	-	1,315,474
3. Clerks and mailhandlers, CAG A-J offices								
Mail processing	9,273,395	9,672,949	-	1,439,231	9,112,080	-	-	161,315
Window service	1,338,093	587,422	-	-	587,422	-	-	650,671
Administration support and miscellaneous	1,489,315	-	-	776,967	776,967	136,842	-	575,716
Total clerks	11,000,803	7,260,271	-	2,216,198	9,476,469	136,842	-	1,387,702
4. Clerks, CAG K offices	31,965	15,154	-	-	15,154	-	-	6,711
5. City delivery carriers in-office	2,988,674	2,429,938	-	296,780	2,719,719	-	-	224,968
7. City delivery carriers out-of-office	4,332,957	668,951	-	778,270	1,443,121	-	-	2,889,736
Total city carriers	7,321,631	3,098,789	-	1,063,050	4,168,839	-	-	3,114,682
8. Vehicle service drivers	226,011	37,802	-	-	37,802	-	-	197,409
9. Special delivery messengers								
In-office	10,026	7,481	-	-	7,481	-	-	2,565
Street	86,081	42,938	-	-	42,938	-	-	42,063
Equipment maintenance and fees	189	121	-	-	121	-	-	49
Total special delivery messengers	96,296	50,520	-	-	50,520	-	-	44,706

See accompanying notes.

SUMMARY OF ACCRUED COSTS BY BENEFITS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1987
(in thousands)

Cost Summary and Components	Accrued Cost	Attributable Costs (note 5)				All Other Costs
		Variable		Total	Specific Fixed	
		Direct	Indirect			
10. Rural carriers						
Evaluated routes	81,870,118	8674,079	8	8674,079	8	8788,087
Other routes	180,230	28,661	-	28,661	-	101,579
Equipment maintenance allowance	248,780	-	-	-	-	248,780
Total rural carriers	1,748,086	808,730	-	808,730	-	1,142,988
11. Custodial (maintenance) service	1,171,297	-	883,188	883,188	-	808,088
12. Motor vehicle service						
City delivery vehicle	948,008	-	142,728	142,728	-	108,278
Special delivery vehicle	11,861	-	8,290	8,290	-	8,861
All other	161,638	-	-	-	-	161,638
Total motor vehicle	421,489	-	149,018	149,018	-	272,474
13. Miscellaneous operating expenses						
Carfare, tolls and ferrage	57,949	-	11,829	11,829	-	28,980
Other	144,286	-	-	-	-	144,286
Total miscellaneous operating expenses	181,634	-	11,829	11,829	-	170,808
14. Transportation						
Domestic airmail	784,721	884,830	-	884,830	-	180,081
International airmail	188,124	188,124	-	188,124	-	-
Railroad line haul and other service	221,808	221,808	-	221,808	-	2,423
International water	188,238	188,238	-	188,238	-	888
Domestic water	14,149	18,594	-	18,594	-	238,567
Contract highway service	884,802	888,118	-	888,118	-	472,088
Total transportation	2,296,980	1,823,884	-	1,823,884	-	

See accompanying notes.

SUMMARY OF ACCRUED COSTS BY SEGMENTS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1987
(In thousands)

Cost Segments and Components	Accrued Cost	Attributable Costs (note 2)				All Other Costs	
		Volume Variable		Specific Fixed	Total		
		Direct	Indirect				
15. Building occupancy							
Rent, fuel and utilities	\$669,710	8	-	\$669,811	\$669,811	8	\$108,096
Other	140,867	-	-	-	-	-	140,867
Total building occupancy	\$810,587	-	-	\$669,811	\$669,811	-	\$243,968
16. Supplies and services	\$67,138	2,993	-	\$69,348	\$10,739	-	\$46,897
17. Research and development	13,969	-	-	-	-	-	13,969
18. Administration and regional operations							
Headquarters	\$25,829	-	-	186,841	186,841	10,807	419,680
Postal service personnel	1,980,988	-	-	1,129,931	1,129,931	-	\$79,967
Total administration and regional	\$2,006,718	-	-	1,325,572	1,325,572	10,807	1,250,637
19. Support services	13,278	-	-	-	-	-	13,278
20. Depreciation and service wide costs							
Depreciation	414,292	-	-	\$83,612	\$83,612	-	130,680
Other	\$1,184	22,918	-	19,301	\$1,017	\$2,087	(\$1,680)
Total depreciation and service wide cost	\$465,486	22,918	-	\$801,613	\$34,629	\$2,087	\$98,790
Total costs	\$2,727,966	12,919,169	-	7,908,514	\$20,725,693	179,918	11,922,967
Final adjustments	-	(\$2,391)	-	(\$3,001)	(\$6,392)	-	\$6,392
Adjusted grand total	\$2,727,966	\$12,916,778	-	\$7,775,513	\$20,639,301	\$179,918	\$11,919,579

See accompanying notes.

UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Fiscal Year 1987

1. Cost and Revenue Analysis

The Cost and Revenue Analysis (CRA) is prepared annually by the United States Postal Service (Postal Service) for the year commencing October 1 and ending September 30 as an aid in determining that the Postal Service is meeting the statutory requirements under Title 39, U.S. Code, that its "... total income equals, as nearly as practicable, its costs" and that "... each class of mail or type of mail service bear the direct and indirect costs attributable to that class or service ...". The CRA presents allocations of the Postal Service's revenues and attributable costs among the categories of mail and services provided by the Postal Service during the year. Other revenues and costs are presented in the aggregate so as to provide a reconciliation to total revenues and costs as presented in the CRA to the total amounts shown in the annual statement of operations of the Postal Service.

CRA data are based on information from the postal system of accounts. The postal system of accounts, however, generally does not accumulate financial data by class and subclass of mail. Apportionment factors are therefore required for development of the data for CRA purposes. These apportionment factors are derived from various postal operational and statistical information sources. Some of these, such as the In-Office Cost System and the Revenue, Piece and Weight System, are dedicated to this purpose and involve extensive statistical sampling of postal activity during the year. Factors obtained from these systems are updated annually. Supporting information essential to the development of the CRA data is generally obtained from special studies.

2. Attributable Costs

Only "attributable" costs of the Postal Service are apportioned among the classes and subclasses of mail and other services shown in the CRA. Costs are generally considered to be attributable if they are determined to vary with changes in volume, or in certain cases, if they are determined to arise solely from a particular service. "Volume variable" costs equal attributable costs less costs which arise solely from a particular service. The designation of costs as attributable relies mainly on methods and definitions established in previous annual developments of attributable costs for CRA purposes and considered acceptable in light of Postal Rate Commission proceedings and other proceedings of record. For the year ended September 30, 1987, attributable costs comprised 84% of all costs incurred by the Postal Service.

3. Fees

Fees associated with a specific class or subclass of mail are included in the reported revenue for that class or subclass.

4. Foreign Origin Mail

International mail costs include costs attributable to both U. S. origin and foreign origin mail. Volume statistics, however, do not include foreign origin mail.

5. Miscellaneous Items

Miscellaneous items include philatelic sales, fees, fines, unclaimed money from dead letters, sales of postal cards and services performed for government agencies and private contractors.

6. Special Services on Penalty Mail

The revenues and attributable costs for performing special services in conjunction with other government agency penalty mail are included in special service revenues and costs.

7. Other

All figures in the CRA are rounded; detail may not add to totals. Percentages are rounded to the nearest decimal.

- Denotes zero value.

() Denotes negative value.

STATISTICS BY CLASS OF MAIL

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FIRST-CLASS MAIL, PRIORITY MAIL, EXPRESS MAIL, AND MAILGRAMS

Fiscal Year 1987

Category	Letters and Sealed Parcels (including flats & JPPs)		Cards			Total First- Class Mail	Priority Mail	Express Mail	Mail- grams
	Single	Presort	Postal	Private					
				Single	Presort				
REVENUE AND COST RELATIONSHIP									
Per piece (cents):									
Revenue (note 1).....	26.1	19.1	14.0	14.8	11.9	23.8	206.4	1,200.8	61.0
Attributable cost.....	16.9	9.0	8.9	10.6	8.6	14.4	142.9	809.6	71.7
Revenue less attributable cost.....	9.2	10.1	5.1	4.2	3.3	9.4	163.5	391.3	(10.7)
Per pound (cents):									
Revenue (note 1).....	662.8	517.2	2,797.5	2,469.5	1,986.4	632.4	142.3	649.1	-
Attributable cost.....	423.8	243.0	1,786.9	1,786.2	826.9	383.3	86.4	329.6	-
Revenue less attributable cost.....	229.0	274.2	1,011.6	683.3	1,059.5	249.1	75.9	319.6	-
VOLUME STATISTICS									
Pieces (thousands).....	54,169,986	21,379,327	372,667	2,119,153	839,279	78,809,812	264,322	41,532	21,989
Weight per piece (ounces).....	0.8	0.8	0.1	0.1	0.1	0.8	34.5	29.6	-
Weight per cubic foot (pounds)	-	-	-	-	-	15.3	13.7	9.3	-
Weight in pounds (thousands).....	2,162,518	786,909	1,985	12,716	5,032	2,970,440	763,085	76,832	-
Cubic feet (thousands).....	-	-	-	-	-	194,108	55,975	9,291	-
STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION									
Estimated average haul via purchased transportation (miles).....	N/A	N/A	N/A	N/A	N/A	581	815	867	-
Estimated ton-miles via purchased transportation (thousands).....	801,969	196,067	375	2,796	944	882,111	296,088	34,075	-
Estimated cubic foot-miles via purchased transportation (thousands).....	66,662,046	24,323,822	43,474	322,940	109,080	90,461,862	43,385,539	8,241,062	-

See accompanying notes.

SECOND-CLASS MAIL

Fiscal Year 1987

Category	Total Within the Country	Outside the Country			Total Second-Class Mail
		Nonprofit Publications	Classroom Publications	Regular Rate Publications	
REVENUE AND COST RELATIONSHIP					
Per piece (cents):					
Revenue (note 1).....	6.3	9.6	12.6	14.9	12.4
Attributable cost.....	6.1	9.2	15.1	12.3	10.9
Revenue less attributable cost.....	0.2	(0.6)	(2.5)	2.6	1.6
Per pound (cents):					
Revenue (note 1).....	22.9	26.7	19.7	32.3	31.9
Attributable cost.....	21.6	29.1	21.9	26.6	27.7
Revenue less attributable cost.....	0.7	(2.4)	(2.2)	5.8	4.2
VOLUME STATISTICS					
Pieces (thousands).....	1,479,531	2,246,406	46,674	6,549,799	10,324,809
Weight per piece (ounces).....	4.5	3.9	11.0	7.4	6.2
Weight per cubic foot (pounds).....	19.8	19.9	20.0	19.8	19.6
Weight in pounds (thousands)					
Local.....	217,963	3,486	17	181,369	372,723
Nonlocal.....	301,500	539,143	23,981	2,666,674	3,639,696
Total pounds (thousands).....	419,563	541,829	23,998	3,018,042	4,012,421
Cubic feet (thousands)					
Local.....	11,172	184	4	7,649	19,009
Nonlocal.....	10,337	29,441	1,062	144,666	185,906
Total cubic feet (thousands).....	21,509	29,625	1,066	152,317	204,917
STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION					
Estimated average haul via purchased transportation (miles).....	14	976	722	706	707
Estimated ton-miles via purchased transportation (thousands).....	1,411	262,642	12,068	1,011,167	1,287,186
Estimated cubic foot-miles via purchased transportation (thousands).....	144,720	27,796,275	1,196,102	102,214,290	131,360,387

See accompanying notes.

THIRD-CLASS MAIL

Fiscal Year 1987

Category	Bulk Rate Regular				Bulk Rate Nonregular			Total Third-Class Mail
	Single Piece Rate	Carrier Prepaid	Other	Total	Carrier Prepaid	Other	Total	
REVENUE AND COST RELATIONSHIP								
Per piece (cents):								
Revenue (note 1).....	88.5	9.1	12.3	10.5	5.8	9.1	7.9	10.3
Attributable cost.....	85.4	4.9	12.2	7.9	3.4	7.9	9.7	7.8
Revenue less attributable cost.....	\$1.1	4.9	0.1	2.7	2.2	0.5	0.9	2.5
Per pound (cents):								
Revenue (note 1).....	190.9	63.0	105.3	79.9	100.1	129.3	123.9	85.9
Attributable cost.....	134.7	29.9	106.9	59.4	61.2	130.3	108.9	64.9
Revenue less attributable cost.....	54.1	33.2	1.4	20.4	38.9	9.0	14.9	21.0
VOLUME STATISTICS								
Pieces (thousands).....	159,493	29,743,848	21,909,579	49,653,224	2,366,176	9,666,338	11,032,514	89,732,201
Weight per piece (ounces).....	7.8	2.9	1.9	2.1	0.9	1.0	1.0	1.9
Weight per cubic foot (pounds).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	19.2
Weight in pounds (thousands).....	76,929	3,680,656	2,551,651	6,402,507	181,225	844,674	875,999	7,155,085
Cubic feet (thousands).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	373,439
STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION								
Estimated average haul via purchased transportation (miles).....	655	N/A	N/A	663	N/A	N/A	429	633
Estimated ton-miles via purchased transportation (thousands).....	23,736	1,089,603	747,495	1,797,148	20,444	94,290	114,734	1,925,008
Estimated cubic feet-miles via purchased transportation (thousands).....	3,627,413	107,341,881	77,114,376	184,568,257	2,268,969	10,416,296	12,673,296	200,669,969

See accompanying notes.

FOURTH-CLASS MAIL

Fiscal Year 1967

<u>CATEGORY</u>	<u>Total Parcels (Zone Rate)</u>	<u>Bound- Printed Matter</u>	<u>Special Fourth-Class Rate</u>	<u>Library Rate</u>	<u>Total Fourth-Class Mail</u>
<u>REVENUE AND COST RELATIONSHIP</u>					
Per piece (cents):	290.7	68.8	123.5	106.1	183.9
Revenue (note 1).....	290.8	48.4	182.4	107.8	126.2
Attributable cost.....	30.9	14.9	(29.9)	(2.7)	7.6
Revenue less attributable cost.....					
Per pound (cents):	49.7	23.7	39.9	27.0	37.8
Revenue (note 1).....	42.8	17.8	49.2	27.7	36.6
Attributable cost.....	8.9	6.1	(9.3)	(0.7)	2.2
Revenue less attributable cost.....					
<u>VOLUME STATISTICS</u>					
Pieces (thousands).....	142,968	225,537	184,933	51,804	615,230
Weight per piece (ounces).....	96.7	39.4	49.5	82.3	58.7
Weight per cubic foot (pounds).....	7.9	18.4	10.9	14.9	10.6
Weight in pounds: (thousands)					
Local.....	19,731	142,553	4,405	3,041	169,730
Nonlocal.....	919,053	489,946	806,336	198,711	2,000,006
Total pounds (thousands).....	938,784	632,499	810,741	201,752	2,178,671
Cubic feet: (thousands)					
Local.....	2,408	6,670	404	202	11,886
Nonlocal.....	104,913	29,724	48,614	13,388	194,639
Total cubic feet (thousands).....	107,321	36,394	49,018	13,590	206,124
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>					
Estimated average haul via purchased transportation (miles).....	996	512	1,258	794	820
Estimated ton-miles via purchased transportation (thousands).....	402,877	124,696	318,880	79,860	925,073
Estimated cubic feet-miles via purchased transportation (thousands).....	108,349,797	15,248,988	56,548,413	10,801,754	187,748,932

See accompanying notes.

GOVERNMENT MAIL AND FREE MAIL FOR THE BLIND AND HANDICAPPED

Fiscal Year 1997

Category	Government Mail				Total (note 2)	Free Mail For The Blind and Handicapped
	Penalty U.S. Postal Service	Other Govern- ment Agencies	Franked Members of Congress	Other		
REVENUE AND COST RELATIONSHIP						
Per piece (cents):						
Revenue.....	N/A	37.3	12.6	N/A	22.7	N/A
Attributable cost.....	N/A	19.0	3.3	336.7	16.3	29.9
Revenue less attributable cost.....	N/A	18.3	9.2	(336.7)	16.4	(29.9)
Per pound (cents):						
Revenue.....	N/A	230.0	467.4	N/A	229.3	N/A
Attributable cost.....	N/A	112.1	123.1	1,579.9	113.9	29.3
Revenue less attributable cost.....	N/A	107.9	344.3	(1,579.9)	214.4	(29.3)
VOLUME STATISTICS						
Pieces (thousands).....	491,296	2,213,449	806,318	1,702	3,151,763	41,187
Weight per piece (ounces).....	2.9	2.7	0.4	3.4	2.4	16.3
Weight per cubic foot (pounds).....	14.8	15.3	15.6	12.5	15.4	12.0
Weight in pounds (thousands).....	77,719	375,120	13,513	363	466,715	41,989
Cubic feet (thousands).....	5,246	24,239	868	22	30,373	3,510
STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION						
Estimated average haul via purchased transportation (miles).....	925	996	782	932	978	369
Estimated ton-miles via purchased transportation (thousands).....	30,235	172,338	5,025	166	207,753	6,572
Estimated cubic feet-miles via purchased transportation (thousands)	4,082,851	22,270,069	641,781	19,575	27,025,266	1,067,171

See accompanying notes.

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INTERNATIONAL MAIL
Fiscal Year 1967

	Surface			Airmail			Total Inter- national Mail
	Letters and Cards	Other Articles	Parcel Post	Letters and Cards	Other Articles	Parcel Post	
Attributable cost (millions) (note 3).....	888.7	8188.9	871.8	8220.8	8113.5	980.4	8708.4
VOLUME STATISTICS							
Planes to foreign destinations (thousands).....	141,921	130,368	4,780	479,780	27,633	3,438	777,818
Weight per plane (ounces).....	1.2	13.0	133.4	0.9	13.1	89.8	4.4
Weight per cubic foot (pounds).....	14.1	17.6	7.7	12.9	12.9	9.2	12.8
Weight in pounds (thousands).....	20,466	97,743	39,080	23,901	23,849	19,191	213,789
Cubic feet (thousands).....	743	5,953	5,909	1,951	1,749	2,339	17,423
STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION							
Estimated average domestic haul (miles).....	480	984	1,081	388	384	325	780
Estimated ton-miles, domestic haul (thousands).....	2,407	48,104	30,980	4,685	4,444	3,121	99,392
Estimated cubic feet-miles, domestic haul (thousands)...	345,482	5,348,115	5,369,579	735,435	665,065	739,613	13,239,189

See accompanying notes.

SPECIAL SERVICES
(note 4)

Fiscal Year 1987

<u>Category</u>								
<u>REVENUE AND COST RELATIONSHIP</u>	<u>Regulatory</u>	<u>Certified</u>	<u>Insurance</u>	<u>Collect on Delivery</u>	<u>Special Delivery</u>	<u>Money Orders</u>	<u>Stamped Envelopes</u>	<u>Post Office Box</u>
Per transaction (cents):								
Revenue.....	449.3	136.1	129.3	196.1	208.9	129.1	N/A	N/A
Attributable cost.....	512.7	99.1	96.9	191.7	305.5	78.9	N/A	N/A
Revenue less attributable cost.....	(63.4)	47.0	32.7	(3.6)	(96.7)	50.2	N/A	N/A
Revenue (millions).....	108.8	233.5	51.7	19.8	28.8	183.8	18.4	273.3
Attributable cost (millions):								
Variable cost.....	80.1	152.9	24.4	17.0	20.9	98.0	0.7	274.2
Other direct.....	5.1	-	14.2	9.0	-	2.8	9.4	-
Total variable cost.....	85.2	152.9	38.6	26.9	20.9	100.8	10.1	274.2
Specific fixed cost.....	124.9	-	-	-	11.7	10.6	-	-
Total attributable cost.....	190.1	152.9	38.6	26.9	32.5	111.1	10.1	274.2
Revenue less attributable cost (millions).....	(23.5)	80.6	13.1	(0.4)	(5.9)	71.3	8.3	(0.9)
Revenue as a percent of attributable cost.....	87.8%	152.7%	133.0%	96.6%	81.8%	163.6%	182.2%	90.7%
<u>VOLUME</u>								
Transactions (thousands).....	87,077	171,878	40,014	10,406	9,994	141,978	N/A	N/A

See accompanying notes.

UNITED STATES POSTAL SERVICE

NOTES TO COST AND REVENUE ANALYSIS -- STATISTICS BY CLASS OF MAIL

Fiscal Year 1987

1. Fees

Fees associated with a specific class or subclass of mail are included in the reported revenue for that class or subclass.

2. Penalty Mail

U. S. Postal Service penalty mail volume are included in the determination of the per piece and per pound figures shown.

3. Foreign Origin Mail

International mail costs include costs attributable to both U. S. origin and foreign origin mail. Volume statistics, however, do not include foreign origin mail.

4. Special Services on Penalty Mail

The revenues and attributable costs for performing special services in conjunction with other government agency penalty mail are included in special service revenues and costs.

5. Notes

All figures in the CRA are rounded; detail may not add to totals. Percentages are rounded to the nearest decimal.

N/A Denotes not applicable.

- Denotes zero value.

0 Denotes negative value.



COST AND REVENUE ANALYSIS
FISCAL YEAR 1986
RATES AND CLASSIFICATION DEPARTMENT

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SUMMARY OF REVENUE AND COSTS FOR MAJOR SERVICE CATEGORIES

Fiscal Year 1984
(in millions)

	Revenue 1/	Attributable Cost 2/	Revenue Less Attributable Cost	Volume Variable Cost 2/	Revenue as a Percent of Volume Variable Cost
First-Class Mail.....	\$18,034.9	\$10,621.2	\$7,413.7	\$10,621.2	169.89
Priority Mail.....	1,010.7	498.6	512.1	498.6	202.7
Express Mail.....	490.8	210.6	280.2	187.1	262.3
Mailgrams.....	17.5	16.4	1.1	16.4	106.7
Second-class mail:					
Within the county.....	93.9	91.9	2.0	91.9	102.2
Outside the county:					
Nonprofit publications.....	179.7	182.9	(3.2)	182.9	96.3
Classroom publications.....	4.6	4.5	0.1	4.5	102.2
Regular-rate publications.....	935.9	721.7	214.2	721.7	129.7
Fees.....	8.2	-	8.2	-	-
Total second-class mail.....	1,222.3	1,001.0	221.3	1,001.0	122.1
Third-class mail:					
Single piece rate.....	149.4	99.2	50.2	99.2	150.6
Bulk rate - regular.....	4,670.5	3,241.8	1,428.7	3,241.8	144.1
Bulk rate - nonprofit.....	783.1	678.2	104.9	678.2	109.6
Fees.....	43.3	-	43.3	-	-
Total third-class mail.....	5,606.3	4,019.2	1,587.1	4,019.2	139.5
Fourth-class mail:					
Parcels (zone rate).....	405.8	329.5	76.3	329.5	123.2
Bound printed matter.....	146.1	90.9	55.2	90.9	160.7
Total zone-rate mail.....	551.9	420.5	131.4	420.5	131.3
Special fourth-class rate.....	214.1	218.3	(4.2)	218.3	96.1
Library rate.....	48.3	50.2	(1.9)	50.2	96.2
Total fourth-class mail.....	814.3	689.0	125.3	689.0	118.2
Government mail.....	975.6	413.7	561.9	413.7	235.9
Free mail for the blind and handicapped.....	-	10.8	(10.8)	10.8	-
International mail.....	934.1	694.0 4/	240.1	694.0	134.6
Total mail.....	29,106.5	18,174.2	10,932.3	18,150.8	160.4
Special services.....	934.4 6/	885.6	48.8	750.8	124.5
Miscellaneous items.....	100.1 5/	-	100.1	-	-
Total mail and services.....	30,141.0	19,059.8	11,081.2	18,901.6	159.5
Appropriations: Revenue forgone.....	715.8	-	715.8	-	-
Total operating revenue.....	30,856.8	-	-	-	-
Investment income.....	277.9	-	277.9	-	-
Total.....	\$31,134.8	19,059.8	\$12,075.0	18,901.6	164.78
All other costs.....		11,776.4		11,928.5	
Total costs.....		\$30,836.2		\$30,830.2	

See accompanying notes.

DETAIL OF ATTRIBUTABLE COSTS FOR MAJOR SERVICE CATEGORIES

Fiscal Year 1986
(in thousands)

	Volume Variable Cost 2/			Specific Fixed	Total Attributable
	Direct & Indirect Excl. Trans. & Lagged	Transportation	Lagged		
First-Class Mail.....	\$8,541,127	\$399,441	\$1,680,589	\$ -	\$10,621,157
Priority Mail.....	208,492	218,762	71,360	-	498,614
Express Mail.....	136,881	26,131	24,126	23,416	210,554
Mailgrams.....	13,878	-	3,274	-	16,352
Second-class mail:					
Within the county.....	72,166	3,471	16,246	-	91,883
Outside the county:					
Nonprofit publications.....	138,690	25,307	28,938	-	182,935
Classroom publications.....	2,795	909	780	-	4,484
Regular-rate publications.....	505,283	90,931	125,453	-	721,667
Total second-class mail.....	708,934	120,618	171,417	-	1,000,969
Third-class mail:					
Single piece rate.....	74,609	4,972	19,582	-	99,163
Bulk rate - regular.....	3,500,720	222,878	518,233	-	3,241,831
Bulk rate - nonprofit.....	545,936	18,741	113,525	-	678,202
Total third-class mail.....	3,121,265	246,591	651,340	-	4,019,196
Fourth-class mail:					
Parcels (zone rate).....	128,355	155,892	45,294	-	329,541
Bound printed matter.....	44,770	30,678	15,493	-	90,941
Total zone-rate mail.....	173,125	186,570	60,787	-	420,482
Special fourth-class rate.....	99,905	84,894	33,486	-	218,285
Library rate.....	23,391	18,596	8,230	-	50,217
Total fourth-class mail.....	296,421	290,060	102,503	-	688,984
Government mail.....	267,371	87,433	58,900	-	413,704
Free mail for the blind and handicapped...	7,500	1,342	1,913	-	10,755
International mail.....	247,929	389,916	56,112	-	693,957
Special and other services.....	441,175	-	309,632	134,753	885,560
Total all mail and services.....	\$13,990,173	\$1,780,294	\$3,131,166	\$158,169	\$19,059,802

See accompanying notes.

SUMMARY OF REVENUE, ATTRIBUTABLE COSTS, PIECES AND WEIGHT FOR MAJOR SERVICE CATEGORIES

Fiscal Year 1986
(in millions)

	Revenue		Attributable Cost		Mail Volume		Mail Weight	
	\$	%	\$	%	Pieces	lb	Pounds	lb
First-Class Mail.....	\$18,034.9	58.0%	\$18,621.2	55.0%	76,186.6	51.7%	2,811.6	16.4%
Priority Mail.....	1,010.7	3.2	498.6	2.6	329.9	0.2	704.0	4.1
Express Mail.....	490.8	1.6	210.6	1.1	40.1	-	74.2	0.4
Mailgram.....	17.5	0.1	16.4	0.1	25.5	-	-	-
Second-class mail:								
Within the county.....	93.9	0.3	91.9	0.5	1,738.0	1.2	483.7	2.8
Outside the county:								
Nonprofit publications.....	179.7	0.6	182.9	1.0	2,249.7	1.5	555.8	3.3
Classroom publications.....	4.6	-	4.5	-	37.4	-	30.2	0.2
Regular-rate publications.....	935.9	3.0	721.7	3.8	6,562.9	4.5	2,902.0	17.0
Fees.....	8.2	-	-	-	-	-	-	-
Total second-class mail.....	1,222.3	3.9	1,001.0	5.3	10,587.9	7.2	3,971.6	23.3
Third-class mail:								
Single piece rate.....	149.4	0.5	99.2	0.5	155.2	0.1	76.0	0.5
Bulk rate - regular.....	4,670.5	15.0	3,241.8	17.1	44,006.2	29.9	5,802.3	34.0
Bulk rate - nonprofit.....	743.1	2.3	678.2	3.5	19,887.6	7.4	645.7	3.9
Fees.....	43.3	0.1	-	-	-	-	-	-
Total third-class mail.....	5,606.3	17.9	4,019.2	21.1	55,048.9	37.4	6,544.0	38.4
Fourth-class mail:								
Parcels (zone rate).....	405.8	1.3	329.5	1.7	142.5	0.1	842.7	4.9
Bound printed matter.....	146.1	0.5	90.9	0.5	249.2	0.2	635.5	3.7
Total zone-rate mail.....	551.9	1.8	420.5	2.2	391.8	0.3	1,478.2	8.6
Special fourth-class rate.....	214.1	0.7	218.3	1.1	167.2	0.1	956.3	5.3
Library rate.....	48.3	0.1	50.2	0.3	43.0	-	219.8	1.3
Total fourth-class mail.....	814.3	2.6	689.0	3.6	602.0	0.4	2,254.3	13.2
Government mail.....	975.6	3.1	413.7	2.1	3,721.4	2.6	485.1	2.8
Free mail for the blind and handicapped.....	-	-	10.8	0.1	35.5	-	36.8	0.2
International mail.....	934.1	3.0	694.0	3.7	796.3	0.5	214.5	1.2
Total mail.....	29,106.5	93.4	18,174.2	95.5	147,374.2	100.0%	17,096.1	100.0%
Special services.....	934.4	6/	885.6	4.5	-	-	-	-
Miscellaneous items.....	100.1	0.3	-	-	-	-	-	-
Total mail and services.....	30,141.0	96.8	\$19,059.8	100.0%	-	-	-	-
Appropriations: Revenue forgone.....	715.8	2.3	-	-	-	-	-	-
Total operating revenue.....	30,856.8	99.1	-	-	-	-	-	-
Investment income.....	277.9	0.9	-	-	-	-	-	-
Total.....	\$31,134.8	100.0%	-	-	-	-	-	-

See accompanying notes.

SUMMARY OF ACCRUED COSTS BY BUSINESS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1984
(In thousands)

Cost Elements and Components	Accrued Cost	Attributable Costs 2/ Volume Variable			Specific Fixed	All Other Costs
		Direct	Indirect	Total		
1. Postmasters	\$1,054,950	\$ -	\$187,310	\$187,310	\$ -	\$869,640
2. Supervisors and Technicians						
Mail Processing	533,432	-	533,432	533,432	-	-
Window Service	99,307	-	47,809	47,809	-	51,418
Administration and Support						
Time and Attendance	67,594	-	43,364	43,364	-	24,230
Local Services						
City Carriers						
In-office	123,129	-	112,720	112,720	-	10,409
Equipment Load	11,086	-	11,086	11,086	-	-
Other Street	178,631	-	38,148	38,148	-	140,483
Special Delivery Messengers						
In-office	806	-	242	242	-	364
Street	5,185	-	2,013	2,013	-	3,152
Other Supervisors and Technicians	1,104,192	-	214,862	214,862	-	889,330
Total Supervisors	2,123,142	-	1,003,756	1,003,756	-	1,119,386
3. Clerks and Mailhandlers, CAG A-J Offices						
Mail Processing	7,709,733	6,272,943	1,387,309	7,575,051	-	129,802
Window Service	1,156,209	554,667	-	554,667	-	595,542
Administrative Support and Miscellaneous	1,357,852	-	897,666	897,666	127,354	532,832
Total Clerks	10,213,794	6,827,209	2,000,975	8,828,184	127,354	1,258,256
4. Clerks, CAG K Offices	24,241	17,826	-	17,826	-	6,415
6. City Delivery Carriers						
In-office	2,678,891	2,254,087	181,803	2,435,889	-	243,002
7. City Delivery Carriers						
Out-of-office	4,099,774	239,578	826,381	1,063,959	-	3,035,815
Total City Carriers	6,778,665	2,493,665	1,006,183	3,499,848	-	3,278,817
8. Vehicle Service Drivers	214,658	34,215	-	34,215	-	180,443
9. Special Delivery Messengers						
In-office	9,414	3,766	-	3,766	-	5,648
Street	80,243	31,274	-	31,274	-	48,969
Equipment Maintenance and Fees	119	50	-	50	-	69
Total Special Delivery Messengers	89,776	35,090	-	35,090	-	54,686

See accompanying notes.

SUMMARY OF ACCRUED COSTS BY SEGMENTS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1966
(in thousands)

Cost Segments and Components	Accrued Cost	Attributable Costs 2/			Specific Fixed	All Other Costs
		Direct	Volume Variable			
			Indirect	Total		
10. Rural Carriers						
Evaluated Routes	91,271,267	9532,661	\$ -	9532,661	\$ -	9738,606
Other Routes	122,513	26,953	-	26,953	-	95,560
Equipment Maintenance Allowance	254,871	-	-	-	-	254,871
Total Rural Carriers	1,648,651	959,614	-	959,614	-	1,089,037
11. Custodial (maintenance) Service	1,106,796	-	527,202	527,202	-	579,594
12. Motor Vehicle Service						
City Delivery Vehicle	229,362	-	122,003	122,003	-	107,359
Special Delivery Vehicle	8,954	-	3,499	3,499	-	5,455
All Other	164,232	-	-	-	-	164,232
Total Motor Vehicle	402,548	-	125,502	125,502	-	277,046
13. Miscellaneous Operating Expenses						
Carfare, Tolls and Perdiage	33,210	-	8,503	8,503	-	24,707
Other	92,082	-	-	-	-	92,082
Total Miscellaneous Operating Expenses	125,292	-	8,503	8,503	-	116,789
14. Transportation						
Domestic Airmail	781,909	760,537	-	760,537	-	21,372
International Airmail	172,650	172,650	-	172,650	-	-
Railroad Line Mail and Other Service	218,254	149,323	-	149,323	-	68,931
Intercontinental Water	140,615	140,615	-	140,615	-	-
Domestic Water	13,936	13,030	-	13,030	-	898
Contract Highway Service	892,344	552,506	-	552,506	-	339,838
Total Transportation	2,219,708	1,788,649	-	1,788,649	-	431,059

See accompanying notes.

SUMMARY OF ACCRUED COSTS BY SEGMENTS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1986
(in thousands)

Cost Segments and Components	Accrued Cost	Attributable Costs 2/			Specific Fixed	All Other Costs
		Volume Variable		Total		
		Direct	Indirect			
15. Building Occupancy						
Rents, Fuel and Utilities	\$612,909	\$ -	\$529,326	\$529,326	\$ -	\$103,583
Other	163,379	-	-	-	-	163,379
Total Building Occupancy	796,288	-	529,326	529,326	-	266,962
16. Supplies and Services	784,668	3,195	293,876	297,171	-	487,497
17. Research and Development	7,156	-	-	-	-	7,156
18. Administration and Regional Operations						
Headquarters	551,498	-	126,271	126,271	7,399	417,828
Postal Service Personnel	2,248,868	-	1,088,187	1,088,187	-	1,160,681
Total Administration and Regional	2,800,366	-	1,214,458	1,214,458	7,399	1,578,509
19. Support Services	10,289	-	-	-	-	10,289
20. Depreciation and Service Wide Costs						
Depreciation	387,409	-	277,238	277,238	-	110,171
Other	39,760	34,969	12,542	47,511	23,416	(31,167)
Total Depreciation and Service Wide Costs	427,169	34,969	289,780	324,749	23,416	79,034
Total Cost	30,830,157	11,794,582	7,186,971	18,981,553	158,169	11,690,435
Final Adjustments	-	(50,467)	(29,453)	(79,920)	-	79,920
Adjusted Grand Total	\$30,830,157	\$11,744,115	\$7,157,518	\$18,901,633	\$158,169	\$11,770,355

See accompanying notes.

UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS

Year ended September 30, 1966

1. Cost and Revenue Analysis

The Cost and Revenue Analysis (CRA) is prepared annually by the United States Postal Service (Postal Service) for the year commencing October 1 and ending September 30 as an aid in determining that the Postal Service is meeting the statutory requirements under Title 39, U.S. Code, that its "... total income equals, as nearly as practicable, its costs" and that "... each class of mail or type of mail service bear the direct and indirect costs attributable to that class or service ...". The CRA presents allocations of the Postal Service's revenue and attributable costs among the categories of mail and services provided by the Postal Service during the year. Other revenue and costs are presented in the aggregate so as to provide a reconciliation to total revenue and costs as presented in the CRA to the total amounts shown in the annual statement of operations of the Postal Service.

CRA data are based on information from the postal system of accounts. The postal system of accounts, however, generally does not accumulate financial data by class and subclass of mail. Apportionment factors are therefore required for development of the data for CRA purposes. These apportionment factors are derived from various postal operational and statistical information sources. Some of these, such as the In-Office Cost System and the Revenue, Pieces and Weight System, are dedicated to this purpose and involve extensive statistical sampling of postal activity during the year. Factors obtained from these systems are updated annually. Supporting information essential to the development of the CRA data is generally obtained from special studies.

2. Attributable Costs

Only "attributable" costs of the Postal Service are apportioned among the classes and subclasses of mail and other services shown in the CRA. Costs are generally considered to be attributable if they are determined to vary with changes in volume, or in certain cases, if they are determined to arise solely from a particular service. "Volume variable" costs equal attributable costs less costs which arise solely from a particular service. The designation of costs as attributable relies mainly on methods and definitions established in previous annual developments of attributable costs for CRA purposes and considered acceptable in light of Postal Rate Commission proceedings and other proceedings of record. For the year ended September 30, 1966, attributable costs comprised 62% of all costs incurred by the Postal Service.

3. Fees

Fees associated with a specific class or subclass of mail are included in the reported revenue for that class or subclass.

4. Foreign-Origin Mail

International mail costs include costs attributable to both U. S. origin and foreign origin mail. Volume statistics, however, do not include foreign origin mail.

UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Year ended September 30, 1986

5. Miscellaneous Items

Miscellaneous items include philatelic sales, fees, fines, unclaimed money from dead letters, sales of postal cards and services performed for government agencies and private contractors.

6. Special Services on Penalty Mail

The revenue and attributable costs for performing special services in conjunction with other government agency penalty mail are included in special service revenue and costs.

7. Express Mail Weight

During the first quarter of the Fiscal Year 1987, a study was performed which revises the estimate for the weight of Express Mail. Management believes the results of the study reflect a more accurate estimate of Express Mail weight. Hence, the results of this study, which reduce the weight estimates by approximately 40%, are included in the CRA.

8. Other

All figures in the CRA are rounded; detail may not add to totals. Percents are rounded to the nearest decimal.

- Denotes zero value.

() Denotes negative value.

STATISTICS BY CLASS OF MAIL

FIRST-CLASS MAIL, PRIORITY MAIL, EXPRESS MAIL, AND MAILGRAM

Fiscal Year 1984

Category REVENUE AND COST RELATIONSHIP	Letters and Sealed Parcels (including flats & IPFs)		Cards			Total First- Class Mail	Priority Mail	Express Mail 5/	Mail- gram
	Single	Presort	Postal	Private					
				Single	Presort				
Per piece (cents):									
Revenue.....	25.8	19.0	14.0	14.8	11.9	23.7	306.4	1,224.0	68.
Attributable cost.....	16.3	8.4	8.7	9.7	4.0	13.9	151.1	525.1	64.0
Revenue less attributable cost.....	9.5	10.6	5.3	5.1	7.9	9.8	155.3	698.9	4.4
Per pound (cents):									
Revenue.....	662.1	520.7	3,800.8	2,462.6	1,980.1	641.5	143.6	641.7	-
Attributable cost.....	419.7	231.2	1,743.2	1,625.8	672.5	377.8	70.8	283.9	-
Revenue less attributable cost.....	242.4	289.5	1,057.6	837.6	1,307.6	263.7	72.8	377.8	-
<u>VOLUME STATISTICS</u>									
Pieces (thousands).....	53,188,698	19,808,418	353,710	2,024,326	811,496	76,186,648	329,896	40,095	25,540
Weight per piece (ounces).....	0.6	0.6	0.1	0.1	0.1	0.6	34.1	29.6	-
Weight per cubic foot (pounds).....	-	-	-	-	-	16.1	14.7	6.9	-
Weight in pounds (thousands).....	2,070,267	722,529	1,768	12,144	4,070	2,811,578	704,026	74,175	-
Cubic feet (thousands).....	-	-	-	-	-	175,156	47,951	10,682	-
<u>STATISTICS USED IN APPROXIMATING COSTS OF PURCHASED TRANSPORTATION</u>									
Estimated average haul via purchased transportation (miles).....	NA	NA	NA	NA	NA	564	806	887	-
Estimated ton-miles via purchased transportation (thousands).....	482,383	168,964	343	2,548	849	654,979	270,603	32,897	-
Estimated cubic foot-miles via purchased transportation (thousands).....	60,128,600	21,113,301	35,913	265,522	88,035	81,631,371	36,859,661	9,475,378	-

See accompanying notes.

SECOND-CLASS MAIL

Fiscal Year 1964

Category	Total Within the County	Outside the County			Total Second-Class Mail
<u>REVENUE AND COST RELATIONSHIP</u>					
Per piece (cents):					
Revenue.....	5.4	0.0	12.2	14.3	11.5 ✓
Attributable cost.....	5.3	0.1	12.0	11.0	9.5
Revenue less attributable cost.....	0.1	(0.1)	0.2	3.3	2.0
Per pound (cents):					
Revenue.....	19.4	12.3	15.1	12.3	10.8 ✓
Attributable cost.....	19.0	12.9	14.9	24.9	25.2
Revenue less attributable cost.....	0.4	(0.6)	0.2	7.4	5.6
<u>VOLUME STATISTICS</u>					
Pieces (thousands).....	1,737,956	2,349,090	37,360	6,562,090	10,587,904
Weight per piece (ounces).....	4.5	4.0	12.9	7.1	6.0
Weight per cubic foot (pounds).....	30.6	19.4	23.1	20.3	20.2
Weight in pounds (thousands):					
Local.....	200,625	1,017	16	143,095	407,543
Nonlocal.....	223,059	952,796	30,160	2,730,077	3,564,101
Total pounds (thousands).....	483,684	953,813	30,176	2,901,962	3,971,644
Cubic feet (thousands):					
Local.....	12,662	157	-	7,004	19,933
Nonlocal.....	10,041	20,512	1,305	135,817	176,472
Total cubic feet (thousands).....	23,503	20,669	1,305	142,821	196,378
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>					
Estimated average haul via purchased transportation (miles).....	14	1,033	700	707	715
Estimated ton-miles via purchased transportation (thousands).....	1,505	205,644	11,092	976,643	1,273,764
Estimated cubic foot-miles via purchased transportation (thousands).....	154,122	29,456,351	1,030,036	95,907,047	126,426,957

See accompanying log sheets.

THIRD-CLASS MAIL

Fiscal Year 1966

Category	Bulk Rate Regular				Bulk Rate-Nonprofit			Total Third-Class Mail
REVENUE AND COST RELATIONSHIP	Single Piece Rate	Carrier Present	Other	Total	Carrier Present	Other	Total	
Per piece (cents):								V
Revenue.....	96.3	9.2	12.3	10.6	4.9	7.3	6.8	10.2
Attributable cost.....	61.9	1.9	11.6	7.4	2.8	7.1	6.2	7.3
Revenue less attributable cost.....	32.4	5.3	0.7	3.2	2.1	0.2	0.6	2.9
Per pound (cents):								V
Revenue.....	196.5	62.7	108.8	80.5	81.8	118.8	111.6	85.7
Attributable cost.....	130.4	26.5	182.6	55.9	47.0	115.1	101.9	61.4
Revenue less attributable cost.....	66.1	36.2	6.2	24.6	34.8	3.7	9.7	24.3
VOLUME STATISTICS								
Pieces (thousands).....	155,157	24,173,638	19,832,592	44,886,230	2,140,820	8,746,728	10,887,556	55,048,943
Weight per piece (ounces).....	7.8	2.4	1.8	2.1	1.0	1.0	1.0	1.9
Weight per cubic foot (pounds).....	NA	NA	NA	NA	NA	NA	NA	19.9
Weight in pounds (thousands).....	76,040	3,563,605	2,238,682	5,802,287	125,992	536,670	665,662	6,543,989
Cubic feet (thousands).....	NA	NA	NA	NA	NA	NA	NA	328,728
STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION								
Estimated average haul via purchased transportation (miles).....	651	NA	NA	706	NA	NA	424	678
Estimated ton-miles via purchased transportation (thousands).....	23,162	1,079,226	685,095	1,764,321	23,220	89,213	112,434	1,899,916
Estimated cubic foot-miles via purchased transportation (thousands).....	3,430,192	106,937,749	67,896,845	174,834,584	2,485,838	9,545,706	12,031,544	180,296,330

See accompanying notes.

FOURTH-CLASS MAIL

Fiscal Year 1966

Category	Total Parcels (Zone Rate)	Bound Printed Matter	Special Fourth-Class Rate	Library Rate	Total Fourth-Class Mail
<u>REVENUE AND COST RELATIONSHIP</u>					
Per piece (cents):					✓
Revenue.....	284.7	58.6	128.0	112.3	135.3
Attributable cost.....	231.2	36.5	130.5	116.7	114.4
Revenue less attributable cost.....	53.5	22.1	(2.5)	(4.4)	20.9
Per pound (cents):					✓
Revenue.....	48.2	23.0	38.5	22.0	36.1
Attributable cost.....	39.1	14.3	39.2	22.8	30.6
Revenue less attributable cost.....	9.1	8.7	(0.7)	(0.8)	5.5
<u>VOLUME STATISTICS</u>					
Pieces (thousands).....	142,540	249,222	167,223	43,024	602,009
Weight per piece (ounces).....	94.6	40.8	53.2	81.7	59.9
Weight per cubic foot (pounds).....	7.7	16.8	11.6	14.8	10.7
Weight in pounds (thousands)					
Local.....	19,906	167,411	3,262	3,324	15
Nonlocal.....	622,791	468,873	553,044	216,461	2,060,000
Total pounds (thousands).....	842,697	635,484	556,306	219,785	2,254,272
Cubic feet (thousands)					
Local.....	2,589	9,976	280	224	13,069
Nonlocal.....	187,177	27,853	47,747	14,661	197,438
Total cubic feet (thousands).....	109,766	37,829	48,027	14,885	210,507
<u>STATISTICS USED IN APPROPRIATING COSTS OF PURCHASED TRANSPORTATION</u>					
Estimated average haul via purchased transportation (miles).....	998	518	1,259	801	838
Estimated ton-miles via purchased transportation (thousands).....	410,573	131,308	348,141	86,693	966,715
Estimated cubic foot-miles via purchased transportation (thousands).....	106,962,323	14,428,018	68,112,371	11,743,860	193,246,572

See accompanying notes.

GOVERNMENT MAIL AND FREE MAIL FOR THE BLIND AND HANDICAPPED

Fiscal Year 1986

<u>Category</u>	<u>Government Mail</u>					<u>Free Mail For The Blind and Handicapped</u>
	<u>Penalty</u>	<u>Franked</u>			<u>Total 2/</u>	
<u>REVENUE AND COST RELATIONSHIP</u>	<u>U.S. Postal Service</u>	<u>Other Govern- ment Agencies</u>	<u>Members of Congress</u>	<u>Other</u>		
Per piece (cents):						
Revenue.....	NA	34.2	12.9	NA	29.4	NA
Attributable cost.....	NA	15.1	2.9	86.1	12.5	30.3
Revenue less attributable cost.....	NA	19.1	10.0	(86.1)	16.9	(30.3)
Per pound (cents):						
Revenue.....	NA	220.5	549.5	NA	234.1	NA
Attributable cost.....	NA	97.4	122.6	1,077.4	99.3	29.2
Revenue less attributable cost.....	NA	123.1	426.9	(1,077.4)	134.8	(29.2)
<u>VOLUME STATISTICS</u>						
Pieces (thousands).....	401,273	2,568,366	747,548	4,219	3,721,405	35,476
Weight per piece (ounces).....	2.7	2.5	0.4	1.3	2.1	16.6
Weight per cubic foot (pounds).....	14.6	15.7	12.5	12.0	15.4	11.7
Weight in pounds (thousands).....	68,688	398,878	17,488	337	485,111	36,792
Cubic feet (thousands).....	4,671	25,439	1,394	28	31,532	3,150
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>						
Estimated average haul via purchased transportation (miles).....	487	1,001	950	950	938	318
Estimated ton-miles via purchased transportation (thousands).....	12,923	181,699	8,180	79	202,881	4,904
Estimated cubic foot-miles via purchased transportation (thousands).....	1,764,828	23,177,327	1,301,931	12,567	26,254,653	841,980

See accompanying notes.

INTERNATIONAL MAIL

Fiscal Year 1966

	Surface			Airmail			Total Inter- national Mail
	Letters and Cards	Other Articles	Parcel Post	Letters and Cards	Other Articles	Parcel Post	
Attributable cost (millions).....3/	\$86.1	\$142.9	\$59.6	\$229.9	\$103.9	\$69.6	\$404.0
<u>VOLUME STATISTICS</u>							
Pieces to foreign destinations (thousands).....	186,758	124,095	4,078	450,040	27,236	3,300	796,315
Weight per piece (ounces).....	1.2	12.0	156.7	0.0	12.3	80.4	4.3
Weight per cubic foot (pounds).....	14.6	17.9	0.6	14.0	14.0	7.9	11.0
Weight in pounds (thousands).....	13,976	59,825	39,946	21,464	20,977	10,206	214,474
Cubic feet (thousands).....	954	5,503	4,643	1,532	1,502	2,310	16,532
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>							
Estimated average domestic haul (miles).....	374	1,024	1,025	337	370	293	700
Estimated ton-miles, domestic haul (thousands).....	1,627	51,193	20,472	3,617	3,001	2,679	84,409
Estimated cubic foot-miles, domestic haul (thousands)...	354,354	5,390,029	4,759,671	516,201	555,687	679,073	12,459,515

See accompanying notes.

SPECIAL SERVICES 4/

Fiscal Year 1986

Category	Registry	Certified	Insurance	Collect on Delivery	Special Delivery	Money Orders	Stamped Envelopes	Post Office Box
<u>REVENUE AND COST RELATIONSHIP</u>								
Per transaction (cents):								
Revenue.....	457.7	135.1	126.5	188.1	290.3	129.7	NA	NA
Attributable cost.....	480.2	86.8	97.0	200.1	395.7	76.7	NA	NA
Revenue less attributable cost.....	(22.5)	48.3	29.5	(12.0)	(97.4)	53.0	NA	NA
Revenue (millions).....	173.3	212.5	50.4	19.5	31.8	173.6	14.7	258.6
Attributable cost (millions):								
Variable cost.....	59.8	136.5	23.5	16.5	31.3	91.8	0.6	234.7
Other direct.....	5.5	-	15.1	4.3	-	3.4	8.9	-
Total variable cost.....	65.3	136.5	38.6	20.8	31.3	95.2	9.5	234.7
Specific fixed cost.....	116.5	-	-	-	10.9	7.4	-	-
Total attributable cost.....	181.8	136.5	38.6	20.8	42.2	102.6	9.5	234.7
Revenue less attributable cost (millions).....	(8.5)	75.9	11.7	(1.2)	(10.4)	71.0	5.3	23.9
Revenue as a percent of attributable cost.....	95.3	155.7	130.6	93.7	75.4	169.2	154.7	110.2
<u>VOLUME</u>								
Transactions (thousands).....	37,861	157,322	39,801	10,383	10,667	133,800	NA	NA

See accompanying notes.

UNITED STATES POSTAL SERVICE

NOTES TO COST AND REVENUE ANALYSIS -- STATISTICS BY CLASS OF MAIL

Year ended September 30, 1986

1. Post

Post associated with a specific class or subclass of mail are included in the reported revenue for that class or subclass.

2. Penalty Mail

U. S. Postal Service penalty mail volumes are excluded in the determination of the per piece and per pound figures shown.

3. Foreign Origin Mail

International mail costs include costs attributable to both U. S. origin and foreign origin mail. Volume statistics, however, do not include foreign origin mail.

4. Special Services on Penalty Mail

The revenue and attributable costs for performing special services in conjunction with other government agency penalty mail are included in special service revenues and costs.

5. Express Mail Weight

During the first quarter of the Fiscal Year 1987, a study was performed which revised the estimate for the weight of Express Mail. Management believes the results of the study reflect a more accurate estimate of Express Mail weight. Hence, the results of this study, which reduce the weight estimates by approximately 40%, are included in the CMA.

6. Other

All figures in the CMA are rounded; detail may not add to totals. Percentages are rounded to the nearest decimal.

NA: Not applicable.

- Denotes zero value.

() Denotes negative value.



COST AND REVENUE ANALYSIS
FISCAL YEAR 1985
RATES AND CLASSIFICATION DEPARTMENT

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SUMMARY OF REVENUE AND COSTS FOR MAJOR SERVICE CATEGORIES

Fiscal Year 1995
(in millions)

	Revenue	Attributable Costs	Revenue Less Attributable Costs	Revenue as a Percent of Attributable Costs
	\$	\$	\$	%
First-Class Mail.....	616,739.9	616,292.0	64,447.9	162.68
Priority Mail.....	960.0	436.1	523.9	216.1
Express Mail.....	543.0	216.7	327.1	250.9
Postgrams.....	14.9	14.6	0.3	102.1
Second-class mail:				
Within the country.....	60.6	96.1	(37.5)	71.4
Outside the country:				
Nonprofit publications.....	144.5	179.4	(34.9)	80.5
Classroom publications.....	3.3	4.5	(1.2)	73.3
Regular-rate publications.....	662.6	697.3	(105.3)	123.7
Post.....	9.0	-	9.0	-
Total publishers' mail.....	1,000.0	977.3	111.3	111.4
Transient mail.....	4.1	9.3	(4.4)	40.2
Total second-class mail.....	1,092.9	989.7	107.2	110.9
Third-class mail:				
Single piece rate.....	140.9	107.6	41.2	130.3
Bulk rate - regular.....	4,135.6	3,917.4	1,218.2	141.8
Bulk rate - nonprofit.....	500.7	697.0	(136.3)	60.4
Post.....	41.4	-	41.4	-
Total third-class mail.....	4,806.6	3,733.1	1,144.5	131.3
Fourth-class mail:				
Parcels (some rates).....	400.1	300.9	107.2	104.6
Bound printed matter.....	120.0	87.4	32.6	137.3
Total non-rate mail.....	520.1	476.4	40.7	110.4
Special fourth-class rate.....	200.5	190.3	10.2	105.4
Library rate.....	36.4	49.2	(12.8)	74.0
Total fourth-class mail.....	743.0	715.0	47.2	106.6
Government mail.....	918.4	699.7	218.7	236.4
Free mail for the blind and handicapped...	-	11.3	(11.3)	-
International mail.....	602.3	606.3	(4.0)	149.5
Total mail.....	26,801.0	17,000.9	9,393.3	154.0
Special services.....	877.5	879.7	(2.2)	99.7
Miscellaneous items.....	94.0	-	94.0	-
Total mail and services.....	27,773.3	18,380.2	9,693.1	151.9
Appropriations: Revenue Program.....	909.6	-	909.6	-
Total operating revenue.....	26,743.9	-	-	-
Investment income.....	273.7	-	273.7	-
Total.....	629,015.6	18,380.2	610,727.4	158.79
All other costs.....	-	10,970.0	-	-
Total costs.....	-	629,367.0	-	-

See accompanying notes.

DETAIL OF ATTRIBUTABLE COSTS FOR MAJOR SERVICE CATEGORIES

Fiscal Year 1995
(in thousands)

	Variable Costs (Short-Run)		Longer-Run Attributable	Specific Fixed	Total Attributable
	Direct and Indirect	Transportation			
First-Class Mail.....	98,392,288	\$486,276	81,493,507	8	910,292,029
Priority Mail.....	195,025	182,086	60,618	-	438,129
Express Mail.....	165,431	49,985	31,069	-	246,485
Registered.....	11,822	-	2,783	-	14,605
Second-class mail:					
Within the country.....	78,732	3,741	15,607	-	98,080
Outside the country:					
Nonprofit publications.....	127,100	26,051	26,216	-	179,367
Classroom publications.....	2,900	962	723	-	4,493
Regular-rate publications.....	503,381	81,167	112,910	-	697,138
Total publishers' mail.....	710,001	111,921	155,456	-	977,278
Traveler's mail.....	6,947	123	1,384	-	8,453
Total second-class mail.....	716,980	112,943	156,840	-	985,751
Third-class mail:					
Single piece rate.....	84,084	3,614	19,945	-	107,643
Bulk rate - regular.....	2,345,596	131,144	440,637	-	2,917,377
Bulk rate - nonprofit.....	569,829	20,430	106,786	-	697,044
Total third-class mail.....	2,999,509	155,188	567,368	-	3,722,064
Fourth-class mail:					
Parcels (new rate).....	139,812	204,205	44,825	-	388,842
Bound printed matter.....	29,980	34,804	12,618	-	87,408
Total new-rate mail.....	179,792	239,109	57,443	-	476,350
Special fourth-class rate.....	100,189	98,755	30,390	-	190,254
Library rate.....	26,231	14,619	8,112	-	49,162
Total fourth-class mail.....	306,138	312,483	95,945	-	715,766
Government mail.....	378,480	81,290	53,958	-	403,736
Free mail for the blind and handicapped...	8,006	1,050	2,061	-	11,517
International mail.....	217,844	341,964	47,042	-	606,750
Special and other services.....	453,548	-	287,138	137,003	879,689
Total all mail and services.....	813,719,404	91,643,465	82,788,329	917,003	918,288,201

See accompanying notes.

REPORT OF REVENUE, ATTRIBUTABLE COST, PIECES AND WEIGHT FOR MAIL SERVICE OPERATIONS

Fiscal Year 1965
(in millions)

	Revenue		Attributable Cost			Mail Volume		Mail Weight	
	Y	Y	Y	Y	Y	Pieces	Y	Pieces	Y
First-Class Mail.....	\$15,730.9	\$7.20	\$15,383.0	\$6.30	73,000.3	51.70	2,062.0	15.90	
Priority Mail.....	200.0	3.3	430.1	3.4	307.0	0.2	472.0	0.0	
Express Mail.....	543.0	1.9	216.7	1.2	40.3	-	144.3	0.9	
Regulat.....	14.9	0.1	14.0	0.1	31.3	-	-	-	
Second-class mail:									
Within the country.....	60.6	0.2	90.1	0.5	1,037.6	1.3	915.1	3.1	
Outside the country.....									
Nonprofit publications.....	144.5	0.5	179.6	1.0	2,136.7	1.5	937.5	3.3	
Classroom publications.....	3.3	-	4.9	-	49.2	-	29.0	0.2	
Regular-rate publications.....	663.6	3.0	697.3	3.2	6,394.2	4.6	2,961.0	17.1	
Post.....	9.0	-	-	-	-	-	-	-	
Total publications' mail.....	1,800.0	3.7	977.3	3.3	10,376.1	7.4	3,963.4	23.7	
Transient mail.....	4.1	-	0.5	-	3.4	-	2.2	-	
Total second-class mail.....	1,903.9	3.7	983.7	3.3	10,379.5	7.4	3,965.3	23.7	
Third-class mail:									
Single piece rate.....	100.0	0.5	107.6	0.6	100.4	0.1	75.7	0.0	
Bulk rate - regular.....	4,135.6	14.3	2,917.4	14.0	41,025.0	29.3	5,729.1	34.2	
Bulk rate - nonprofit.....	500.7	1.9	607.0	3.0	10,976.1	7.9	647.9	3.9	
Post.....	41.4	0.1	-	-	-	-	-	-	
Total third-class mail.....	4,686.6	16.7	3,732.1	20.4	52,176.3	37.3	6,452.0	38.5	
Fourth-class mail:									
Parcels (non-rate).....	400.1	1.4	300.9	3.1	151.9	0.1	600.4	5.2	
Second printed matter.....	130.0	0.4	87.4	0.5	212.0	0.2	577.0	3.4	
Total non-rate mail.....	530.1	1.8	478.4	3.6	364.4	0.3	1,177.4	8.6	
Special fourth-class rate.....	300.5	0.7	190.3	1.0	103.7	0.1	919.9	3.1	
Library rate.....	30.4	0.1	49.2	0.3	40.6	-	192.4	1.1	
Total fourth-class mail.....	761.0	2.6	718.0	3.9	578.7	0.4	2,190.5	12.8	
Government mail.....	910.4	3.2	605.7	3.2	3,301.0	2.4	404.4	3.9	
Free mail for the blind and handicapped.....	-	-	11.3	0.1	27.5	-	25.4	0.1	
International mail.....	602.3	3.0	600.3	3.3	679.4	0.6	217.0	1.3	
Total mail.....	26,401.0	93.3	17,000.5	95.2	140,000.0	100.00	14,700.7	100.00	
Special services.....	677.3	3.2	677.7	4.5	-	-	-	-	
Miscellaneous items.....	94.0	0.3	-	-	-	-	-	-	
Total mail and services.....	27,772.3	95.8	17,678.2	100.00	-	-	-	-	
Appropriations: Revenue Surplus.....	909.6	3.3	-	-	-	-	-	-	
Total operating revenue.....	28,742.9	99.1	-	-	-	-	-	-	
Investment income.....	272.7	0.9	-	-	-	-	-	-	
Total.....	\$30,015.6	100.00	-	-	-	-	-	-	

See accompanying notes.

SUMMARY OF ACCRUED COSTS BY DEPARTMENTS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1980
(In thousands)

Cost Elements and Components	Accrued Cost	Attributable Costs 2/				Specific Fixed	All Other Costs	
		Variable (Short and Longer-Run)		Total				
		Direct	Indirect					
1. Postmasters	01,012,529	0	-	0100,104	0100,104	0	-	0032,345
2. Supervisors and Technicians								
Mail Processing	501,830	-	-	501,830	501,830	-	-	-
Vehicle Service	00,564	-	-	43,380	43,380	-	-	45,184
Administration and Support								
Time and Attendance	50,105	-	-	37,579	37,579	-	-	20,506
Local Services								
City Carriers								
In-office	113,300	-	-	105,641	105,641	-	-	7,659
Elemental Load	10,493	-	-	10,493	10,493	-	-	-
Other Street	100,554	-	-	36,106	36,106	-	-	132,440
Special Delivery Messengers								
In-office	519	-	-	200	200	-	-	311
Street	4,672	-	-	1,021	1,021	-	-	2,051
Other Supervisors and Technicians	1,047,609	-	-	211,650	211,650	-	-	036,031
Total Supervisors	1,993,700	-	-	940,716	940,716	-	-	1,045,070
3. Clerks and Mailhandlers, OIG A-J Offices								
Mail Processing	7,471,453	6,100,001	-	1,162,054	7,250,945	-	-	120,507
Vehicle Service	1,005,901	531,093	-	531,093	531,093	-	-	554,000
Administrative Support and Miscellaneous	1,305,399	-	-	663,033	663,033	130,251	-	492,115
Total Clerks	9,042,752	6,719,004	-	1,025,007	8,545,071	130,251	-	1,166,630
4. Clerks, OIG K Offices	29,011	19,447	-	-	19,447	-	-	9,564
6. City Delivery Carriers								
In-office	3,540,297	2,107,097	-	164,204	2,352,101	-	-	100,116
7. City Delivery Carriers								
Out-of-office	3,906,044	233,632	-	803,956	1,037,500	-	-	2,909,056
Total City Carriers	6,526,941	2,421,529	-	900,200	3,309,709	-	-	3,137,172
8. Vehicle Service Drivers	204,334	32,692	-	-	32,692	-	-	171,632
9. Special Delivery Messengers								
In-office	8,701	3,902	-	-	3,503	-	-	5,279
Street	70,006	30,734	-	-	30,734	-	-	40,072
Equipment Maintenance and Fees	113	53	-	-	53	-	-	60
Total Special Delivery Messengers	07,700	34,209	-	-	34,209	-	-	53,411

See accompanying notes.

SUMMARY OF ACCOUNT CHIEFS BY MAJOR AND COMPONENT DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1965
(in thousands)

Cost Elements and Components	Accrued Cost	Attributable Costs 2/			Specific Fixed	All Other Costs
		Variable (Short and Longer-Run)		Total		
		Direct	Indirect			
10. Rural Carriers						
Scheduled Routes	91,178,941	9490,569	\$ -	9490,569	\$ -	9480,372
Other Routes	128,493	28,309	-	28,309	-	100,384
Equipment Maintenance Allowance	250,217	-	-	-	-	250,217
Total Rural Carriers	1,549,951	918,878	-	918,878	-	1,030,973
11. Contractual (Maintenance) Service	1,000,140	-	908,677	908,677	-	951,463
12. Motor Vehicle Service						
City Delivery Vehicle	229,685	-	122,329	122,329	-	106,736
Special Delivery Vehicle	8,284	-	3,239	3,239	-	5,045
All Other	153,099	-	-	-	-	153,099
Total Motor Vehicle	390,448	-	125,568	125,568	-	264,880
13. Miscellaneous Operating Expenses						
Cartage, Tolls and Per Diem	29,180	-	6,920	6,920	-	22,180
Other	82,208	-	-	-	-	82,208
Total Miscellaneous Operating Expenses	111,388	-	6,920	6,920	-	104,388
14. Transportation						
Domestic Airmail	735,624	727,123	-	727,123	-	7,901
International Airmail	150,109	150,109	-	150,109	-	-
Railroad Line Road and Other Service	213,750	146,839	-	146,839	-	66,911
International Water	96,943	96,943	-	96,943	-	-
Domestic Water	16,716	15,074	-	15,074	-	1,642
Contract Highway Service	830,992	913,391	-	913,391	-	315,601
Total Transportation	2,941,534	1,649,479	-	1,649,479	-	392,955

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See accompanying notes.

SUMMARY OF ACCRUED COSTS BY SHOWINGS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1985
(in thousands)

Cost Elements and Components	Accrued Cost	Attributable Costs 2/			Specific Fixed	All Other Costs		
		Variable (Short and Longer-Run)		Total				
		Direct	Indirect					
15. Building Occupancy								
Rents, Fuel and Utilities	8599,436	0	-	8497,951	8497,951	0	-	8101,485
Other	174,903		-	-	-		-	174,903
Total Building Occupancy	774,339		-	497,951	497,951		-	276,388
16. Supplies and Services	796,897	2,327		292,744	295,071		-	901,826
17. Research and Development	13,677		-	-	-		-	13,677
18. Administration and Regional Operations								
Headquarters	489,497		-	74,374	74,374	6,752		408,371
Postal Service Personnel	1,917,942		-	1,069,918	1,069,918		-	848,024
Total Administration and Regional	2,407,439		-	1,144,292	1,144,292	6,752		1,296,395
19. Support Services	15,317		-	-	-		-	15,317
20. Depreciation and Service Wide Costs								
Depreciation	344,349		-	262,055	262,055			82,294
Other	64,699	36,096		9,479	45,575	22,764		(3,640)
Total Depreciation and Service Wide Costs	409,048	36,096		271,534	307,630	22,764		78,654
Total Cost	29,267,041	11,434,721		6,770,713	18,205,434	159,767		10,901,840
Final Adjustments	-	(48,572)		(28,428)	(77,000)		-	77,000
Adjusted Grand Total	29,267,041	11,386,149		6,742,285	18,128,434	159,767		10,978,840

See accompanying notes.

UNITED STATES POSTAL SERVICE
NOTE TO COM' AND REVENUE ANALYSIS

Year ended September 30, 1985

1. Cost and Revenue Analysis

The Cost and Revenue Analysis (CRA) is prepared annually by the United States Postal Service (Postal Service) for the year commencing October 1 and ending September 30 as an aid in determining and estimating that the Postal Service is meeting the statutory requirements under Title 39, U.S. Code, that its "... total income equals, as nearly as practicable, its costs" and that "... each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or service" The CRA presents allocations of the Postal Service's revenues and attributable costs among the categories of mail and services provided by the Postal Service during the year. Other revenues and costs are presented in the aggregate so as to provide a reconciliation to total revenues and costs as presented in the CRA to the total amounts shown in the annual statement of operations of the Postal Service.

CRA data are based on information from the postal system of accounts. The postal system of accounts, however, generally does not accumulate financial data by class and subclass of mail. Apportionment factors are therefore required for development of the data for CRA purposes. These apportionment factors are derived from various postal operational and statistical information sources. Some of these, such as the In-Office Cost System and the Revenue, Piece and Weight System, are dedicated to this purpose and involve extensive statistical sampling of postal activity during the year. Factors obtained from these systems are updated annually. Supporting information essential to the development of the CRA data is generally obtained from special studies.

2. Attributable Costs

Only "attributable" costs of the Postal Service are apportioned among the classes and subclasses of mail and other services shown in the CRA. Costs are generally considered to be attributable if they are determined to vary with changes in volume, or in certain cases, if they are determined to arise solely from a particular service. The designation of costs as attributable relies mainly on methods and definitions established in previous annual developments of attributable costs for CRA purposes and considered acceptable in light of Postal Rate Commission proceedings and other proceedings of record. For the year ended September 30, 1985, attributable costs comprised 63% of all costs incurred by the Postal Service.

3. Fees

Fees associated with a specific class of mail are included in the reported revenue for that class. Such fees are also included in the reported revenue for a particular subclass if applicable.

4. Foreign Origin Mail

International mail costs include costs attributable to both U. S. origin and foreign origin mail. Volume statistics, however, do not include foreign origin mail.

UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS

Year ended September 30, 1985

5. Miscellaneous Items

Miscellaneous items include philatelic sales, fees, fines, undelivered money from dead letters, sales of postal cards and services performed for government agencies and private contractors.

6. Special Services on Penalty Mail

The revenues and attributable costs for performing special services in conjunction with other government agency penalty mail are included with the special services revenues and costs.

7. Other

All figures in the statements are rounded; detail may not add to totals. Percentages are rounded to nearest decimal.

- Denotes zero value.

() Denotes negative value.

STATISTICS BY CLASS OF MAIL

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FIRST-CLASS MAIL, PRIORITY MAIL, EXPRESS MAIL, AND MAILGRAM

Fiscal Year 1985

Category	Letters and Sealed Parcels (including flats & 1PPs)		Cards			Total First- Class Mail	Priority Mail	Express Mail	Mail- gram
	Single	Presort	Postal	Single	Presort				
<u>REVENUE AND COST RELATIONSHIP</u>									
Per piece (cents):									
Revenue.....	24.9	19.6	13.6	14.6	11.9	23.1	311.9	1,391.8	47.7
Attributable cost.....	16.4	8.7	7.0	9.9	5.2	14.2	182.3	478.9	46.7
Revenue less attributable cost.....	9.5	9.9	6.6	4.7	6.7	8.9	189.6	722.9	1.0
Per pound (cents):									
Revenue.....	645.0	513.1	3,727.5	3,430.5	1,977.4	620.7	142.9	376.9	-
Attributable cost.....	423.8	240.2	1,405.1	1,651.2	860.3	386.5	65.2	150.2	-
Revenue less attributable cost.....	221.2	271.9	1,322.4	779.3	1,117.3	242.2	77.6	226.7	-
<u>VOLUME STATISTICS</u>									
Pieces (thousands).....	51,930,839	17,546,205	347,618	2,007,983	607,430	72,440,275	307,815	45,249	31,266
Weight per piece (ounces).....	0.6	0.6	0.1	0.1	0.1	0.6	35.0	51.0	-
Weight per cubic foot (pounds).....	-	-	-	-	-	16.6	14.1	7.8	-
Weight in pounds (thousands).....	2,004,944	630,218	1,730	13,047	3,646	2,662,594	672,447	144,289	-
Cubic feet (thousands).....	-	-	-	-	-	160,202	47,644	10,562	-
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>									
Estimated average haul via purchased transportation (miles).....	NA	NA	NA	NA	NA	604	743	887	-
Estimated ton-miles via purchased transportation (thousands).....	490,236	157,080	330	2,730	643	658,940	238,583	63,992	-
Estimated cubic foot-miles via purchased transportation (thousands).....	60,830,885	18,870,857	34,830	277,197	67,204	79,270,773	33,784,380	16,463,845	-

See accompanying notes.

SECOND-CLASS MAIL

Fiscal Year 1969

Quincy REVENUE AND COST RELATIONSHIP	Total Within the county	Outside the County			Total Publishers' Mail	Transient Mail	Total Second-Class Mail
		Nonprofit Publications	Classroom Publications	Total Regular Rate Publications			
Per piece (cents):							✓
Revenue.....	3.7	6.6	7.3	13.6	10.3	75.8	10.3
Attributable cost.....	3.2	6.4	9.9	11.0	9.4	135.9	9.3
Revenue less attributable cost.....	(1.5)	(1.6)	(2.6)	2.6	1.1	(60.1)	1.0
Per pound (cents):							✓
Revenue.....	13.3	25.9	11.5	30.1	27.5	189.7	27.6
Attributable cost.....	10.7	32.3	15.3	24.4	24.7	390.1	24.9
Revenue less attributable cost.....	(5.4)	(6.3)	(4.0)	5.7	2.8	(200.4)	2.7
<u>VOLUME STATISTICS</u>							
Pieces (thousands).....	1,837,649	2,136,684	45,327	6,354,235	10,374,095	5,422	10,379,517
Weight per piece (ounces).....	4.5	4.2	10.2	7.2	6.1	6.4	6.1
Weight per cubic foot (pounds).....	20.0	19.2	24.0	21.2	20.0	20.6	20.8
Weight in pounds: (thousands)							
Local.....	281,482	3,451	14	144,753	420,900	265	429,163
National.....	133,432	955,070	20,963	2,717,013	3,534,470	1,902	3,536,380
Total pounds (thousands).....	515,114	957,521	20,977	3,861,766	3,963,370	2,167	3,965,543
Cubic feet: (thousands)							
Local.....	14,877	134	1	6,743	20,907	12	20,919
National.....	11,496	20,966	1,166	127,941	169,729	93	169,822
Total cubic feet (thousands).....	25,893	20,992	1,167	134,684	190,636	105	190,741
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>							
Estimated average haul via purchased transportation (miles).....	13	1,006	782	814	837	644	837
Estimated ton-miles via purchased transportation (thousands).....	1,082	279,126	11,321	834,685	1,126,414	612	1,127,027
Estimated cubic foot-miles via purchased transportation (thousands).....	147,077	20,256,390	908,133	78,310,813	100,623,321	60,142	100,683,463

See accompanying notes.

THIRD-CLASS MAIL

Fiscal Year 1983

Category	REVENUE AND COST RELATIONSHIP							
	Single Piece Rate	Bulk Rate Regular			Bulk Rate Nonprofit			Total Third- Class Mail
		Carrier Presort	Other	Total	Carrier Presort	Other	Total	
Per piece (cents):								
Revenue.....	88.6	8.7	11.9	10.1	3.4	5.5	5.1	9.4 [✓]
Attributable cost.....	63.9	3.6	11.7	7.1	3.0	7.1	6.4	7.1
Revenue less attributable cost.....	24.5	5.1	0.2	3.0	0.4	(1.6)	(1.3)	2.3
Per pound (cents):								
Revenue.....	196.6	57.4	96.4	72.2	60.8	91.8	86.6	75.7 [✓]
Attributable cost.....	142.2	34.0	95.0	50.9	52.7	118.8	107.6	57.7
Revenue less attributable cost.....	54.4	23.4	1.4	21.3	8.1	(27.0)	(21.0)	18.0
<u>VOLUME STATISTICS</u>								
Pieces (thousands).....	168,357	23,807,326	17,618,532	41,025,787	1,938,174	9,037,959	10,976,133	52,170,257
Weight per piece (ounces).....	7.2	3.4	2.0	2.2	0.9	1.0	0.9	2.0
Weight per cubic foot (pounds).....	NA	NA	NA	NA	NA	NA	NA	20.1
Weight in pounds: (thousands).....	75,709	3,553,515	2,175,957	5,729,072	109,733	530,129	647,862	6,452,643
Cubic feet: (thousands).....	NA	NA	NA	NA	NA	NA	NA	321,080
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>								
Estimated average haul via purchased transportation (miles).....	612	NA	NA	NA	NA	NA	380	528
Estimated ton-miles via purchased transportation (thousands).....	21,722	751,080	565,842	1,317,722	12,835	83,325	96,160	1,435,604
Estimated cubic foot-miles via purchased transportation (thousands).....	2,921,850	73,997,616	35,763,757	129,761,173	1,330,945	8,772,914	10,103,859	142,786,882

See accompanying notes.

FOURTH-CLASS MAIL

Fiscal Year 1983

<u>Category</u>	<u>Total Parcels (Zone Rate)</u>	<u>Bound Printed Matter</u>	<u>Special Fourth-Class Rate</u>	<u>Library Rate</u>	<u>Total Fourth-Class Mail</u>
<u>REVENUE AND COST RELATIONSHIP</u>					
Per piece (cents):					✓
Revenue.....	288.0	96.4	121.0	79.8	132.5
Attributable cost.....	296.7	41.1	114.8	107.7	124.3
Revenue less attributable cost.....	11.3	15.3	6.2	(27.9)	8.2
Per pound (cents):					✓
Revenue.....	46.9	20.8	38.6	18.9	35.4
Attributable cost.....	44.9	15.1	36.6	25.6	33.2
Revenue less attributable cost.....	2.0	5.7	2.0	(6.7)	2.2
<u>VOLUME STATISTICS</u>					
Pieces (thousands).....	151,542	212,829	185,677	45,631	575,679
Weight per piece (ounces).....	91.5	43.4	90.2	67.5	59.9
Weight per cubic foot (pounds).....	8.7	16.7	12.4	15.2	11.4
Weight in pounds (thousands)					
Local.....	24,839	151,380	3,599	2,947	182,764
Nonlocal.....	941,557	436,380	916,322	189,452	1,973,699
Total pounds (thousands).....	966,397	577,736	919,921	192,399	2,156,483
Cubic feet (thousands)					
Local.....	2,870	8,983	291	194	12,338
Nonlocal.....	97,115	25,682	41,522	12,503	176,822
Total cubic feet (thousands).....	99,985	34,665	41,813	12,697	189,160
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>					
Estimated average haul via purchased transportation (miles).....	997	545	1,107	557	906
Estimated ton-miles via purchased transportation (thousands).....	419,645	116,223	285,907	52,736	874,510
Estimated cubic foot-miles via purchased transportation (thousands).....	96,923,067	14,019,174	46,039,168	6,956,400	167,938,209

See accompanying notes.

GOVERNMENT MAIL AND FREE MAIL FOR THE BLIND AND HANDICAPPED

Fiscal Year 1965

Category	Government Mail					Free Mail For The Blind and Handicapped
	Postage	Other Govern- ment Agencies	Members of Congress	Other	Total 2/	
<u>REVENUE AND COST RELATIONSHIP</u>						
Per piece (cents):						
Revenue.....	NA	37.6	12.6	NA	31.7	NA
Attributable cost.....	NA	17.1	3.0	152.7	14.0	41.8
Revenue less attributable cost.....	NA	20.5	9.6	(152.7)	17.7	(41.8)
Per pound (cents):						
Revenue.....	NA	213.2	582.4	NA	226.5	NA
Attributable cost.....	NA	97.3	139.1	3,282.6	100.0	45.4
Revenue less attributable cost.....	NA	115.9	443.3	(3,282.6)	126.5	(45.4)
<u>VOLUME STATISTICS</u>						
Pieces (thousands).....	391,676	2,216,369	679,454	3,461	3,290,960	37,531
Weight per piece (ounces).....	3.2	2.8	9.3	0.7	2.4	14.7
Weight per cubic foot (pounds).....	14.6	15.8	12.6	12.4	15.5	11.8
Weight in pounds (thousands).....	78,815	390,716	14,685	161	484,377	25,375
Cubic feet (thousands).....	5,390	24,765	1,167	13	31,335	2,144
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>						
Estimated average haul via purchased transportation (miles).....	243	843	811	821	757	257
Estimated ton-miles via purchased transportation (thousands).....	7,467	152,464	5,608	65	165,605	2,705
Estimated cubic foot-miles via purchased transportation (thousands).....	1,022,512	19,330,306	904,998	10,086	21,267,902	453,210

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INTERNATIONAL MAIL

Fiscal Year 1965

	Surface			Airmail			Total Inter- national Mail
	Letters and Cards	Other Articles	Parcel Post	Letters and Cards	Other Articles	Parcel Post	
Attributable cost (millions).....2/	901.5	9101.1	967.8	9309.9	976.1	970.1	9606.3
<u>VOLUME STATISTICS</u>							
Pieces to foreign destinations (thousands).....3	192,094	131,983	3,775	470,529	27,383	4,143	929,407
Weight per piece (ounces).....	1.3	12.0	164.5	0.6	10.0	84.6	4.2
Weight per cubic foot (pounds).....	13.6	19.3	0.3	17.5	15.9	0.7	13.6
Weight in pounds (thousands).....	15,969	90,964	30,813	23,100	10,339	21,904	216,997
Cubic feet (thousands).....	1,173	9,130	4,061	1,320	1,156	2,506	15,946
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>							
Estimated average domestic haul (miles).....	420	1,044	1,074	424	207	426	811
Estimated ton-miles, domestic haul (thousands).....	3,205	51,383	20,950	4,099	2,432	4,666	87,084
Estimated cubic foot-miles, domestic haul (thousands).....	692,609	3,286,841	3,907,691	960,602	331,700	1,067,540	12,726,063

See accompanying notes.

A/
SPECIAL SERVICES

Fiscal Year 1983

Category								
<u>Revenue and Cost Relationship</u>	<u>Registry</u>	<u>Certified</u>	<u>Insurance</u>	<u>Collect on Delivery</u>	<u>Special Delivery</u>	<u>Money Orders</u>	<u>Stamped Envelopes</u>	<u>Post Office Box</u>
Per transaction (cents):								
Revenue.....	444.5	131.0	117.7	193.3	263.9	138.5	NA	NA
Attributable cost.....	476.0	90.0	91.5	196.9	321.0	83.7	NA	NA
Revenue less attributable cost.....	(31.5)	33.0	26.2	(3.6)	(57.9)	54.8	NA	NA
Revenue (millions).....	\$169.3	\$183.9	\$91.1	\$21.3	\$41.9	\$163.1	\$16.8	\$229.9
Attributable cost (millions):								
Variable cost.....	96.3	137.6	34.0	18.5	39.3	89.4	1.0	210.9
Other direct.....	6.7	-	14.9	3.2	-	2.4	10.2	-
Total variable cost.....	63.0	137.6	39.7	21.7	39.2	91.8	11.2	210.9
Specific fixed cost.....	110.4	-	-	-	11.9	6.0	-	-
Total attributable cost.....	101.3	137.6	39.7	21.7	51.1	98.6	11.2	210.9
Revenue less attributable cost (millions).....	(\$12.0)	\$46.3	\$11.4	(\$0.4)	(\$9.2)	\$64.5	\$5.6	\$11.0
Revenue as a percent of attributable cost.....	93.90	133.90	130.70	98.20	82.00	165.40	150.00	105.00
<u>Volume</u>								
Transactions (thousands).....	38,094	140,041	43,004	11,022	15,000	117,792	NA	NA

See accompanying notes.

UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS -- STATISTICS BY CLASS OF MAIL
Year ended September 30, 1975

1. Fees

Fees associated with a specific class of mail are included in the reported revenue for that class. Such fees are also included in the reported revenue for a particular subclass if applicable.

2. Penalty Mail

U. S. Postal Service penalty mail volume are excluded in the determination of the per piece and per pound figures shown.

3. Foreign Origin Mail

International mail costs include costs attributable to both U. S. origin and foreign origin mail. Volume statistics, however, do not include foreign origin mail.

4. Special Services on Penalty Mail

The revenues and attributable costs for performing special services in conjunction with other government agency penalty mail are included with the special services revenues and costs.

5. Other

All figures in the statements are rounded; detail may not add to totals. Percentages are rounded to nearest decimal.

NA - Denotes not applicable.

- Denotes zero value.

() Denotes negative value.



COST AND REVENUE ANALYSIS

FISCAL YEAR 1984

RATES AND CLASSIFICATION DEPARTMENT

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SUMMARY OF REVENUE AND COSTS FOR MAJOR SERVICE CATEGORIES

Piscal Year 1984
(In millions)

	Revenue 3/	Attributable Cost 2/	Revenue Less Attributable Cost	Revenue as a Percent of Attributable Cost
First-Class Mail.....	\$15,215.9	\$9,340.5	\$5,875.4	162.98
Priority Mail.....	928.4	376.0	552.4	246.9
Express Mail.....	489.9	176.6	313.3	277.4
Mailgram.....	12.8	12.6	0.2	101.6
Second-class mail:				
Within the county.....	46.8	74.7	(27.9)	62.7
Outside the county:				
Nonprofit publications.....	140.9	149.3	(8.4)	94.4
Classroom publications.....	2.1	3.2	(1.1)	65.6
Regular-rate publications.....	815.5	598.7	216.8	136.2
Fees.....	10.4	-	10.4	-
Total publishers' mail.....	1,015.7	825.8	189.9	123.0
Transient mail.....	9.3	20.4	(11.1)	45.6
Total second-class mail.....	1,025.0	846.2	178.8	121.1
Third-class mail:				
Single piece rate.....	155.7	115.7	40.0	134.6
Bulk rate - regular.....	3,541.1	2,602.2	938.9	136.1
Bulk rate - nonprofit.....	497.5	623.4	(125.9)	79.8
Fees.....	46.5	-	46.5	-
Total third-class mail.....	4,240.8	3,341.3	899.5	126.9
Fourth-class mail:				
Parcels (some rate).....	413.3	362.6	50.7	114.0
Bound printed matter.....	107.8	70.9	36.9	152.0
Total some-rate mail.....	521.1	433.4	87.7	120.2
Special fourth-class rate.....	211.2	181.3	29.9	116.5
Library rate.....	41.6	50.6	(9.0)	82.2
Total fourth-class mail.....	774.0	665.4	108.6	116.3
Government mail.....	883.8	398.1	485.7	222.0
Free mail for the blind and handicapped...	-	8.8	(8.8)	-
International mail.....	858.6	548.5 4/	310.1	156.6
Total mail.....	24,429.3	15,714.0	8,715.3	155.5
Special services.....	820.6 6/	791.8	28.8	103.6
Miscellaneous items.....	97.1 5/	-	97.1	-
Total mail and services.....	25,347.0	16,505.8	8,841.2	153.6
Appropriations: Revenue forgone.....	879.0	-	879.0	-
Total operating revenue.....	26,226.0	-	-	-
Investment income.....	331.0	-	331.0	-
Total.....	\$26,557.0	16,505.8	\$10,051.2	160.98
All other costs.....		9,933.8		
Total costs.....		\$26,439.6		

See accompanying notes

DETAIL OF ATTRIBUTABLE COSTS FOR MAJOR SERVICE CATEGORIES ^{2/}

Fiscal Year 1984
(In thousands)

	Variable Cost (Short-Run)		Longer-Run Attributable	Specific Fixed	Total Attributable
	Direct and Indirect	Transportation			
First-Class Mail.....	\$7,644,895	\$303,749	\$1,391,899	-	\$9,340,543
Priority Mail.....	168,829	146,598	60,557	-	375,984
Express Mail.....	121,229	39,386	15,958	-	176,573
Mailgram.....	10,662	-	1,937	-	12,599
Second-class mail:					
Within the county.....	59,227	2,714	12,789	-	74,730
Outside the county:					
Nonprofit publications.....	103,574	22,835	22,843	-	149,252
Classroom publications.....	1,873	812	487	-	3,172
Regular-rate publications.....	431,482	62,090	105,104	-	598,676
Total publishers' mail.....	596,156	88,451	141,223	-	825,830
Transient mail.....	16,570	250	3,575	-	20,395
Total second-class mail.....	612,726	88,701	144,798	-	846,225
Third-class mail:					
Single piece rate.....	90,592	2,865	22,219	-	115,676
Bulk rate - regular.....	2,081,360	120,793	400,090	-	2,602,243
Bulk rate - nonprofit.....	509,298	15,352	98,747	-	623,397
Total third-class mail.....	2,681,250	139,010	521,056	-	3,341,316
Fourth-class mail:					
Parcels (some rate).....	137,403	176,063	49,111	-	362,577
Bound printed matter.....	32,968	25,909	11,994	-	70,871
Total some-rate mail.....	170,371	201,972	61,105	-	433,448
Special fourth-class rate.....	101,486	44,702	35,149	-	181,337
Library rate.....	24,163	17,593	8,811	-	50,567
Total fourth-class mail.....	296,020	264,267	105,065	-	665,352
Government mail.....	273,893	67,205	57,050	-	398,148
Free mail for the blind and handicapped...	6,059	1,024	1,691	-	8,774
International mail.....	208,736	290,669	49,061	-	548,466
Special and other services.....	410,919	-	247,108	133,791	791,818
Total all mail and services.....	\$12,435,218	\$1,340,609	\$2,596,180	\$133,791	\$16,505,798

See accompanying notes

SUMMARY OF REVENUE, ATTRIBUTABLE COSTS, PIECES AND WEIGHT FOR MAJOR SERVICE CATEGORIES

Fiscal Year 1984
(In millions)

	Revenue		Attributable Cost		Mail Volume		Mail Weight	
	\$	%	\$	%	Pieces	%	Pounds	%
First-Class Mail.....	\$15,215.9	57.2	\$9,340.5	56.7	68,428.6	52.0	2,511.9	15.7
Priority Mail.....	928.4	3.5	376.0	2.3	293.4	0.2	656.1	4.1
Express Mail.....	489.9	1.8	176.6	1.1	43.9	-	145.5	0.9
Mailgram.....	12.8	0.1	12.6	0.1	34.3	-	-	-
Second-class mail:								
Within the county.....	46.8	0.2	74.7	0.5	1,360.0	1.0	356.9	2.2
Outside the county:								
Nonprofit publications.....	140.9	0.5	149.3	0.9	2,040.9	1.6	510.7	3.2
Classroom publications.....	2.1	-	3.2	-	31.2	-	18.5	0.1
Regular-rate publications.....	815.5	3.1	598.7	3.6	6,077.7	4.6	2,961.0	18.5
Fees.....	10.4	-	-	-	-	-	-	-
Total publishers' mail.....	1,015.7	3.8	825.0	5.0	9,509.9	7.2	3,847.1	24.0
Transient mail.....	9.3	-	20.4	0.1	12.6	-	4.9	-
Total second-class mail.....	1,025.0	3.8	846.2	5.1	9,522.5	7.2	3,852.0	24.0
Third-class mail:								
Single piece rate.....	155.7	0.6	115.7	0.7	178.3	0.1	81.1	0.5
Bulk rate - regular.....	3,541.1	13.3	2,602.2	15.8	37,698.8	28.7	5,070.1	31.6
Bulk rate - nonprofit.....	497.5	1.9	623.4	3.7	10,371.6	7.9	635.3	4.0
Fees.....	46.5	0.2	-	-	-	-	-	-
Total third-class mail.....	4,240.8	16.0	3,341.3	20.2	48,248.7	36.7	5,786.6	36.1
Fourth-class mail:								
Parcels (none rate).....	413.3	1.6	362.6	2.2	163.1	0.1	964.9	6.0
Bound printed matter.....	107.0	0.4	70.9	0.4	194.8	0.2	524.3	3.3
Total none-rate mail.....	521.1	2.0	433.4	2.6	356.8	0.3	1,489.2	9.3
Special fourth-class rate.....	211.2	0.8	181.3	1.1	187.7	0.2	356.8	3.5
Library rate.....	41.6	0.2	50.6	0.3	54.5	0.1	243.3	1.5
Total fourth-class mail.....	774.0	3.0	665.4	4.0	599.0	0.6	2,289.3	14.3
Government mail.....	883.8	3.3	398.1	2.4	3,447.1	2.6	519.4	3.2
Free mail for the blind and handicapped...	-	-	8.8	0.1	32.2	-	29.6	0.2
International mail.....	858.6	3.3	548.5 4/	3.3	894.8	0.7	229.3	1.5
Total mail.....	24,429.3	92.0	15,714.0	95.3	131,544.6	100.0	16,019.7	100.0
Special services.....	820.6 6/	3.1	791.8	4.7	-	-	-	-
Miscellaneous items.....	97.1 5/	0.4	-	-	-	-	-	-
Total mail and services.....	25,347.0	95.5	\$16,505.8	100.0	-	-	-	-
Appropriations: Revenue forgone.....	879.0	3.3	-	-	-	-	-	-
Total operating revenue.....	26,226.0	98.8	-	-	-	-	-	-
Investment income.....	311.0	1.2	-	-	-	-	-	-
Total.....	\$26,537.0	100.0	-	-	-	-	-	-

See accompanying notes

SUMMARY OF ACCRUED COSTS BY SEGMENTS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1984
(In thousands)

Cost Segments and Components	Accrued Cost	Attributable Costs 2/ Variable (Short and Longer-Run)			Specific Fixed	All Other Costs
		Direct	Indirect	Total		
1. Postmasters	\$949,838	\$ -	\$168,852	\$168,852	\$ -	\$780,986
2. Supervisors and Technicians						
Mail Processing	468,417	-	468,417	468,417	-	-
Window Service	82,427	-	40,307	40,307	-	42,120
Administration and Support						
Time and Attendance	42,659	-	27,523	27,523	-	15,136
Local Services						
City Carriers						
In-office	132,439	-	125,667	125,667	-	6,772
Elemental Load	12,829	-	12,829	12,829	-	-
Other Street	205,834	-	44,286	44,286	-	161,548
Special Delivery Messengers						
In-office	754	-	302	302	-	452
Street	5,535	-	2,157	2,157	-	3,378
Other Supervisors and Technicians	841,357	-	194,618	194,618	-	646,739
Total Supervisors	1,792,251	-	916,106	916,106	-	876,145
3. Clerks and Mailhandlers, CAG A-J Offices						
Mail Processing	6,831,237	5,709,864	989,871	6,699,735	-	131,502
Window Service	1,002,217	490,087	-	490,087	-	512,130
Administrative Support and Miscellaneous	1,249,035	-	641,585	641,585	127,199	480,251
Total Clerks	9,082,489	6,199,951	1,631,456	7,831,407	127,199	1,123,883
4. Clerks, CAG K Offices	29,859	20,227	-	20,227	-	9,632
6. City Delivery Carriers						
In-office	2,290,501	1,992,656	170,690	2,163,346	-	127,155
7. City Delivery Carriers						
Out-of-office	3,764,256	220,848	762,380	983,228	-	2,781,028
Total City Carriers	6,054,757	2,213,504	933,070	3,146,574	-	2,908,183
8. Vehicle Service Drivers	186,837	29,894	-	29,894	-	156,943
9. Special Delivery Messengers						
In-office	9,966	3,965	-	3,965	-	6,001
Street	72,690	28,349	-	28,349	-	44,341
Equipment Maintenance and Fees	120	56	-	56	-	64
Total Special Delivery Messengers	82,776	32,370	-	32,370	-	50,406

See accompanying notes

SUMMARY OF ACCRUED COSTS BY SEGMENTS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1984
(In thousands)

Cost Segments and Components	Accrued Cost	Attributable Costs 2/			Specific Fixed	All Other Costs
		Variable (Short and Longer-Run)		Total		
		Direct	Indirect			
10. Rural Carriers						
Evaluated Routes	\$1,058,230	\$443,399	\$ -	\$443,399	\$ -	\$614,831
Other Routes	127,063	27,954	-	27,954	-	99,109
Equipment Maintenance Allowance	247,430	-	-	-	-	247,430
Total Rural Carriers	1,432,723	471,353	-	471,353	-	961,370
11. Custodial (maintenance) Service	1,000,955	-	451,368	451,368	-	549,187
12. Motor Vehicle Service						
City Delivery Vehicle	221,031	-	118,741	118,741	-	102,290
Special Delivery Vehicle	8,736	-	3,418	3,418	-	5,318
All Other	143,041	-	-	-	-	143,041
Total Motor Vehicle	372,808	-	122,159	122,159	-	250,649
13. Miscellaneous Operating Expenses						
Carfare, Tolls and Per Diem	26,017	-	6,319	6,319	-	19,698
Other	73,599	-	-	-	-	73,599
Total Miscellaneous Operating Expenses	99,616	-	6,319	6,319	-	93,297
14. Transportation						
Domestic Airmail	557,919	547,825	-	547,825	-	10,094
International Airmail	167,407	167,407	-	167,407	-	-
Railroad Line Haul and Other Service	169,917	116,609	-	116,609	-	53,308
International Water	59,719	59,719	-	59,719	-	-
Domestic Water	18,165	15,811	-	15,811	-	2,354
Contract Highway Service	717,630	438,596	-	438,596	-	279,034
Total Transportation	1,690,757	1,345,967	-	1,345,967	-	344,790

See accompanying notes

SUMMARY OF ACCRUED COSTS BY SEGMENTS AND COMPONENTS DETAILING ATTRIBUTABLE COSTS

Fiscal Year 1984
(In thousands)

Cost Segments and Components	Accrued Cost	Attributable Costs 2/			Specific Fixed	All Other Costs
		Variable (Short and Longer-Run)		Total		
		Direct	Indirect			
15. Building Occupancy						
Rents, Fuel and Utilities	\$561,576	\$ -	\$451,980	\$451,980	\$ -	\$109,596
Other	167,739	-	-	-	-	167,739
Total Building Occupancy	729,315	-	451,980	451,980	-	277,335
16. Supplies and Services	674,626	1,184	240,085	241,269	-	433,357
17. Research and Development	14,654	-	-	-	-	14,654
18. Administration and Regional Operations						
Headquarters	475,594	-	90,082	90,082	6,592	378,920
Postal Service Personnel	1,397,092	-	812,586	812,586	-	584,506
Total Administration and Regional	1,872,686	-	902,668	902,668	6,592	963,426
19. Support Services	13,957	-	-	-	-	13,957
20. Depreciation and Service Wide Costs						
Depreciation	307,060	-	248,061	248,061	-	58,999
Other	52,066	32,379	9,228	41,607	18,337	(7,878)
Total Depreciation and Service Wide Costs	359,126	32,379	257,289	289,668	18,337	51,121
Total Cost	26,439,630	10,346,829	6,081,352	16,428,181	152,128	9,859,321
Final Adjustments	-	(47,507)	(27,004)	(74,511)	-	74,511
Adjusted Grand Total	\$26,439,630	\$10,299,322	\$6,054,348	\$16,353,670	\$152,128	\$9,933,832

See accompanying notes

UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Year ended September 30, 1984

1. Cost and Revenue Analysis

The Cost and Revenue Analysis (CRA) is prepared annually by the United States Postal Service (Postal Service) for the year commencing October 1 and ending September 30 as an aid in determining and estimating that the Postal Service is meeting the statutory requirements under Title 39, U.S. Code, that its "... total income equals, as nearly as practicable, its costs" and that "... each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or service ...". The CRA presents allocations of the Postal Service's revenues and attributable costs among the categories of mail and services provided by the Postal Service during the year. Other revenues and costs are presented in the aggregate so as to provide a reconciliation to total revenues and costs as presented in the CRA to the total amounts shown in the annual statement of operations of the Postal Service.

CRA data are based on information from the postal system of accounts. The postal system of accounts, however, generally does not accumulate financial data by class and subclass of mail. Apportionment factors are therefore required for development of the data for CRA purposes. These apportionment factors are derived from various postal operational and statistical information sources. Some of these, such as the In-Office Cost System and the Revenue, Pieces and Weight System, are dedicated to this purpose and involve extensive statistical sampling of postal activity during the year. Factors obtained from these systems are updated annually. Supporting information essential to the development of the CRA data is generally obtained from special studies.

2. Attributable Costs

Only "attributable" costs of the Postal Service are apportioned among the classes and subclasses of mail and other services shown in the CRA. Costs are generally considered to be attributable if they are determined to vary with changes in volume, or in certain cases, if they are determined to arise solely from a particular service. The designation of costs as attributable relies mainly on methods and definitions established in previous annual developments of attributable costs for CRA purposes and considered acceptable in light of Postal Rate Commission proceedings and other proceedings of record. For the year ended September 30, 1984, attributable costs comprise 62% of all costs incurred by the Postal Service.

3. Fees

Fees associated with a specific class of mail are included in the reported revenue for that class. Such fees are also included in the reported revenue for a particular subclass if applicable.

4. Foreign Origin Mail

International mail costs include costs attributable to both U. S. origin and foreign origin mail. Volume statistics, however, do not include foreign origin mail.

UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Year ended September 30, 1984

5. Miscellaneous Items

Miscellaneous items include philatelic sales, fees, fines, unclaimed money from dead letters, sales of postal cards and services performed for government agencies and private contractors.

6. Special Services on Penalty Mail

The revenues and attributable costs for performing special services in conjunction with other government agency penalty mail are included with the special services revenues and costs.

7. Other

All figures in the statements are rounded; detail may not add to totals. Percents are rounded to nearest decimal.

NA Denotes not applicable.

- Denotes zero value.

() Denotes negative value.

STATISTICS BY CLASS OF MAIL

247

FIRST-CLASS MAIL, PRIORITY MAIL, EXPRESS MAIL, AND MAILGRAM

Fiscal Year 1984

Category	Letters and Sealed Parcels (including flats & IPPs)		Cards			Total First- Class Mail	Priority Mail	Express Mail	Mail- gram
	Single	Presort	Postal	Single	Private Presort				
REVENUE AND COST RELATIONSHIP									
Per piece (cents):							1/	1/	
Revenue.....	23.8	18.1	13.0	13.7	11.8	22.2	316.4	1,115.7	37.3
Attributable cost.....	15.4	8.9	7.6	10.0	4.4	13.7	128.1	402.2	36.7
Revenue less attributable cost.....	8.4	9.2	5.4	3.7	7.4	8.5	188.3	713.5	0.6
Per pound (cents):							1/	1/	
Revenue.....	615.9	500.0	2,600.3	2,287.1	1,961.1	605.8	141.5	336.6	-
Attributable cost.....	399.1	245.0	1,513.5	1,661.5	724.3	371.9	57.3	121.3	-
Revenue less attributable cost.....	216.8	255.0	1,086.8	625.6	1,236.8	233.9	84.2	215.3	-
VOLUME STATISTICS									
Pieces (000).....	50,267,248	15,310,578	340,441	1,799,817	710,486	68,428,570	293,442	43,907	34,329
Weight per piece (ounces).....	0.6	0.6	0.1	0.1	0.1	0.6	35.8	53.0	-
Weight per cubic foot (pounds).....	-	-	-	-	-	17.6	15.0	10.4	-
Weight in pounds (000).....	1,941,541	553,584	1,702	10,799	4,267	2,511,893	656,085	145,544	-
Cubic feet (000).....	-	-	-	-	-	142,487	43,684	13,971	-
STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION									
Estimated average haul via purchased transportation (miles).....	NA	NA	NA	NA	NA	596	750.0	887.0	-
Estimated ton-miles via purchased transportation (000).....	471,463	131,860	345	2,369	787	606,824	234,900	64,549	-
Estimated cubic foot-miles via purchased transportation (000).....	53,576,494	14,985,556	31,632	218,059	71,918	68,883,659	31,309,102	12,391,390	-

See accompanying notes

SECOND-CLASS MAIL

Fiscal Year 1984

Category	Outside the County						
	Total Within the county	Nonprofit Publications	Classroom Publications	Total Regular Rate Publications	Total Publishers' Mail	Transient Mail	Total Second-Class Mail
<u>REVENUE AND COST RELATIONSHIP</u>							
Per piece (cents):							
Revenue.....	3.4	6.9	6.8	13.4	10.7	73.7	10.8
Attributable cost.....	5.5	7.3	10.2	9.9	8.7	162.0	8.9
Revenue less attributable cost.....	(2.1)	(0.4)	(3.4)	3.5	2.0	(88.3)	1.9
Per pound (cents):							
Revenue.....	13.1	27.6	11.4	27.5	26.4	188.0	26.6
Attributable cost.....	20.9	29.2	17.1	20.2	21.5	413.2	22.0
Revenue less attributable cost.....	(7.8)	(1.6)	(5.7)	7.3	4.9	(225.2)	4.6
<u>VOLUME STATISTICS</u>							
Pieces (000).....	1,360,037	2,040,934	31,171	6,077,742	9,509,884	12,592	9,522,476
Weight per piece (ounces).....	4.2	4.0	9.5	7.8	6.5	6.3	6.5
Weight per cubic foot (pounds).....	18.7	19.4	17.8	22.3	21.5	24.1	21.5
Weight in pounds: (000)							
Local.....	225,234	1,288	5	137,723	384,250	231	364,481
Nonlocal.....	131,655	509,387	18,503	2,823,296	3,482,841	4,705	3,487,546
Total pounds (000).....	356,889	510,675	18,508	2,961,019	3,847,091	4,936	3,852,027
Cubic feet: (000)							
Local.....	12,037	67	-	6,147	18,251	10	18,261
Nonlocal.....	7,038	26,253	1,041	126,480	160,812	195	161,007
Total cubic feet (000).....	19,075	26,320	1,041	132,627	179,063	205	179,268
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>							
Estimated average haul via purchased transportation (miles).....	15	929	795	495	542	661	542
Estimated ton-miles via purchased transportation (000).....	1,007	236,617	7,356	698,125	943,106	1,555	944,661
Estimated cubic foot-miles via purchased transportation (000).....	107,594	24,380,620	821,890	60,624,028	85,734,132	129,163	85,863,295

See accompanying notes

THIRD-CLASS MAIL

Fiscal Year 1984

Category	Bulk Rate Regular				Bulk Rate-Nonprofit			Total Third-Class Mail	
	Single Piece Rate	Carrier Presort	Other	Total	Carrier Presort	Other	Total		
<u>REVENUE AND COST RELATIONSHIP</u>									
Per piece (cents):									1/
Revenue.....	87.3	6.1	11.1	9.4	3.4	5.1	4.8	8.8	
Attributable cost.....	64.9	3.6	11.2	6.9	3.5	6.5	6.0	6.9	
Revenue less attributable cost.....	22.4	4.5	(0.1)	2.5	(0.1)	(1.4)	(1.2)	1.9	
Per pound (cents):									1/
Revenue.....	192.0	56.9	89.1	69.8	54.1	82.9	78.3	73.3	
Attributable cost.....	142.6	25.7	89.5	51.3	55.3	106.3	98.1	57.7	
Revenue less attributable cost.....	49.4	31.2	(0.4)	18.5	(1.2)	(23.4)	(19.8)	15.6	
<u>VOLUME STATISTICS</u>									
Pieces (000).....	178,316	21,391,900	16,306,930	37,698,830	1,627,588	8,743,980	10,371,568	48,248,714	
Weight per piece (ounces).....	7.3	2.3	2.0	2.2	1.0	1.0	1.0	1.8	
Weight per cubic foot (pounds).....	NA	NA	NA	NA	NA	NA	NA	20.6	
Weight in pounds (000).....	81,132	3,032,815	2,037,307	5,070,122	101,739	533,590	635,329	5,786,583	
Cubic feet (000).....	NA	NA	NA	NA	NA	NA	NA	280,474	
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>									
Estimated average haul via purchased transportation (miles).....	630	NA	NA	594	NA	NA	410	576	
Estimated ton-miles via purchased transportation (000).....	24,035	766,129	516,493	1,282,622	13,074	85,964	99,038	1,605,695	
Estimated cubic foot-miles via purchased transportation (000).....	2,964,421	73,351,870	49,393,870	122,745,740	1,345,947	8,822,378	10,168,325	135,878,486	

FOURTH-CLASS MAIL

Fiscal Year 1984

<u>Category</u>	<u>Total Parcels (Zone Rate)</u>	<u>Bound Printed Matter</u>	<u>Special Fourth-Class Rate</u>	<u>Library Rate</u>	<u>Total Fourth-Class Mail</u>
<u>REVENUE AND COST RELATIONSHIP</u>					
Per piece (cents):					<u>V</u>
Revenue.....	255.1	55.3	112.5	76.4	129.2
Attributable cost.....	223.7	36.4	96.6	92.7	111.1
Revenue less attributable cost.....	31.4	18.9	15.9	(16.3)	18.1
Per pound (cents):					<u>V</u>
Revenue.....	42.8	20.6	37.9	17.1	33.8
Attributable cost.....	37.6	13.5	32.6	20.8	29.1
Revenue less attributable cost.....	5.2	7.1	5.3	(3.7)	4.7
<u>VOLUME STATISTICS</u>					
Pieces (000).....	162,051	194,760	187,689	54,537	599,037
Weight per piece (ounces).....	95.3	43.1	47.5	71.4	61.1
Weight per cubic foot (pounds).....	9.1	16.6	12.7	15.1	11.6
Weight in pounds: (000)					
Local.....	25,646	138,068	3,776	3,153	171,463
Nonlocal.....	939,284	385,421	553,017	248,098	2,117,800
Total pounds (000).....	964,930	524,289	556,793	243,251	2,289,263
Cubic feet: (000)					
Local.....	2,826	8,468	296	218	11,798
Nonlocal.....	103,603	23,124	43,403	15,889	186,019
Total cubic feet (000).....	106,429	31,590	43,699	16,099	197,817
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>					
Estimated average haul via purchased transportation (miles)...	997	568	957	653	889
Estimated ton-miles via purchased transportation (000).....	468,135	109,508	264,601	78,344	920,588
Estimated cubic foot-miles via purchased transportation (000).	103,284,674	13,062,247	41,557,412	10,403,433	168,307,766

See accompanying notes

Annual Report of the
United States
Postal Service
Fiscal Year 1988

OFFICE OF THE
POSTMASTER GENERAL

Our Agenda

- I. Expand interval between
rate adjustments
- II. Provide best possible
service to the American
people
- III. Establish better
relationship between
labor and management

- A.M.F.
January 1989

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Financial and Operating Highlights

	Year Ended Sept. 30, 1988	Year Ended Sept. 30, 1987	Year Ended Sept. 30, 1986	Year Ended Sept. 30, 1985	Year Ended Sept. 30, 1984
Pieces of mail (millions)	160,491	153,001	147,379	140,098	131,545
Percent change	4.5	4.4	5.2	6.5	10.2
<i>(dollars in millions)</i>					
Operating revenue	\$55,036	\$51,528	\$49,102	\$27,740	\$25,514
Percent change	11.1	4.7	8.5	9.6	7.4
Public service appropriation	\$ 7.0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue forgone appropriation*	\$ 31.7	\$ 650	\$ 716	\$ 970	\$ 870
Percent change	-20.5	9.2	-26.2	10.3	11.4
Total operating expenses	\$30,119	\$32,520	\$30,717	\$29,207	\$26,557
Percent change	11.3	5.9	5.2	10.8	9.4
Net income (loss)	(\$ 907)	(\$ 223)	\$ 305	(\$ 233)	\$ 117
Fixed assets (net of depreciation)	\$ 7,801	\$ 6,628	\$ 5,588	\$ 5,065	\$ 4,815
Percent change	17.7	18.6	10.3	5.2	7.9
Equity (deficiency)	(\$ 409)	\$ 158	\$ 562	\$ 58	\$ 511
<i>(in units in thousands)</i>					
U.S. resident population January 1, estimate in millions	244.6	242.2	239.9	237.8	234.9
Percent change	1.0	0.9	0.9	1.2	0.7
Pieces of mail per capita	656	655	614	589	560
Percent change	3.5	5.5	4.2	5.2	9.4
Operating revenue per capita	\$ 145.24	\$ 130.16	\$ 125.46	\$ 116.64	\$ 107.77
Percent change	10.0	5.7	7.6	8.2	6.6
Operating expense per piece of mail	22.51¢	21.13¢	20.84¢	20.85¢	20.04¢
Percent change	6.3	1.4	—	4.0	-0.6
Operating revenue per piece of mail	21.84¢	20.48¢	20.43¢	19.80¢	19.24¢
Percent change	6.6	0.2	3.2	2.9	-2.6
Net income (loss) per piece of mail	(0.37¢)	(0.14¢)	0.21¢	(0.18¢)	0.09¢
Percent change	—	—	—	—	-82.7
Career employees**	703,781	750,808	731,705	704,807	672,849
Percent change	1.7	2.6	3.8	4.7	5.9

* Revenue forgone is that revenue given up by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is given to the Postal Service by an annual appropriation of Congress as specified in the 1976 Postal Reorganization Act.

** Figures on career employees have been revised to conform with the current method of counting career paid employees from the On-Roll and Paid Employee Statistics data base.

To the Board of Governors:

During Fiscal Year 1988, the Postal Service processed and delivered 160 billion pieces of mail, surpassing the previous year's volume of 154 billion pieces and establishing a record volume for the 11th consecutive year. Total revenue for the year nearly reached \$30 billion, an 11 percent increase over the previous year despite this increase in revenue we ended the year with a net loss of about \$500 million.

This does not, however, fully tell the story of fiscal year 1988, my first as Postmaster General of the United States. Last year was

one of uncommon challenges, uncommon opportunity, and uncommon response by the men and women of the United States Postal Service.

As I assumed office in March, succeeding Preston B. Tsch, much already had happened to distinguish this as an unusual year. The Postal Service was developing plans to meet the unexpected mandates of the omnibus Budget Reconciliation Act of 1987, which required that we make payments totaling \$520 million to the U.S. Treasury as a contribution toward the national effort to reduce the federal deficit.

The effects of the Act were immediate and will be long lasting.

The Postal Service was forced to cancel or postpone 75 percent of the urgently needed capital investment commitments we had planned for fiscal year 1988 and to reduce operating expense by \$160 million.

These unexpected provisions of the Act were imposed on the Postal Service well after the year had begun and our operating budgets had already been carefully prepared. To meet the mandated reductions, we were required to make additional adjustments, among them an average nine percent reduction in the hours our retail facilities were open to the public. This all happened just as the Postal Service was preparing

to raise rates for the first time in more than three years.

That was just a welcome service, and, unfortunately, it came at a time that a host of organizations and adversaries were stepping up their efforts to privatize the U.S. Postal Service.

The potential clearly existed for a wave of public indignation that could have undone years of steady progress toward improving the quality of services we provide to our customers who depend on this great public enterprise for consistent, reliable, affordable and universal mail services to meet a range of communication and distribution needs.

As the words and images of this annual report demonstrate, the Postal Service not only kept faith with our customers, but also established a clear agenda for continuing the historic partnership we have long held with the American people. The agenda is to:

- Expand the interval between rate adjustments.
- Provide the best possible service to the American people.
- Improve management's working relationship with our employees.

This agenda is essential, realistic and workable. It will require changing some deeply held attitudes within the Postal Service and it will not be achieved overnight. It focuses on the messageable



Thirty-four percent of all letter mail was handled via automated equipment in fiscal year 1988, up eight percent from the previous year.



Fiscal Year 1988: An Uncommon Year of Uncommon Enterprise



Postmaster Reginald Vernon, Edward E. Morgan Jr. (left) and Kenneth F. Hubert (right) were honored as 1988 recipients of the President John F. Kennedy Award for Public Service by the American Postal Union.

Over the 12 months from October 1, 1987, to September 30, 1988, the Postal Service demonstrated that a public service can be effective and businesslike.

In addition to collecting, processing and delivering fiscal year 1988's record volume of 160 billion pieces of mail, the Postal Service focused on forming an agenda compatible with serving the future competitiveness and utility of the nation's postal system.

Throughout the fiscal year, progress was made toward expanding the interval between rate adjustments, providing the best possible service to the American people and improving management's working relationships with employees.

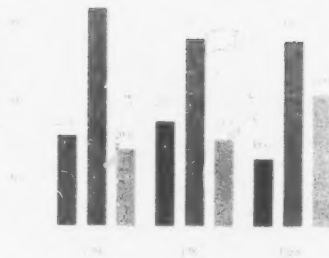
The Postal Service continued to pursue expanded opportunities to keep costs down, to make rate changes less frequent and more moderate and to effectively and efficiently handle mail volume projected to grow at rates of three to four percent annually through the 1990s.

To promote service quality and responsiveness to a variety of products and services were initiated. Groundwork was completed toward establishing new service measurement systems, and — because service quality is linked to employee performance — emphasis was placed on improving both the quality of the working environment and management/employee relations.

These continuing steps fully support the postal agenda and are consistent with the goal of achieving the lowest combined mailer and postal costs for preparing, processing and delivering the mail. This goal is important because the Postal Service will continue to operate in an increasingly competitive communications marketplace well into the 21st Century.

Comparison of Letter Processing Mix

- 1984
- 1986
- 1988



GOVERNMENT MAIL AND FREE MAIL FOR THE BLIND AND HANDICAPPED

Fiscal Year 1984

Category	Government Mail					Free Mail For The Blind and Handicapped
	Penalty U.S. Postal Service	Other Govern- ment Agencies	Franked Members of Congress	Other	Total 2/	
<u>REVENUE AND COST RELATIONSHIP</u>						
Per piece (cents):						
Revenue.....	NA	36.0	12.1	NA	28.8	NA
Attributable cost.....	NA	16.9	3.2	120.7	13.0	27.3
Revenue less attributable cost.....	NA	19.1	8.9	(120.7)	15.8	(27.3)
Per pound (cents):						
Revenue.....	NA	173.1	570.8	NA	189.7	NA
Attributable cost.....	NA	81.5	148.5	2,997.8	85.5	29.6
Revenue less attributable cost.....	NA	91.6	422.3	(2,997.8)	104.2	(29.6)
<u>VOLUME STATISTICS</u>						
Pieces (000).....	377,644	2,145,535	919,337	4,619	3,447,135	32,172
Weight per piece (ounces).....	2.3	3.3	0.3	0.6	2.4	14.7
Weight per cubic foot (pounds).....	14.6	17.7	15.7	15.5	17.3	12.1
Weight in pounds (000).....	53,513	446,160	19,558	186	519,417	29,595
Cubic feet (000).....	3,655	25,182	1,248	12	30,097	2,451
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>						
Estimated average haul via purchased transportation (miles)...	382	803	792	908	765	225
Estimated ton-miles via purchased transportation (000).....	8,117	164,420	7,538	69	180,144	2,937
Estimated cubic foot-miles via purchased transportation (000).	1,100,093	18,626,376	960,610	8,776	20,695,855	490,529

See accompanying notes

INTERNATIONAL MAIL

Fiscal Year 1984

	Surface			Airmail			Total Inter- national Mail
	Letters and Cards	Other Articles	Parcel Post	Letters and Cards	Other Articles	Parcel Post	
Attributable cost (millions).....3/	\$65.9	\$65.0	\$71.5	\$199.6	\$83.4	\$62.9	\$548.5
<u>VOLUME STATISTICS</u>							
Pieces to foreign destinations (000).....	219,898	128,028	4,555	509,557	28,388	4,414	894,840
Weight per piece (ounces).....	1.2	12.6	166.9	0.8	10.8	75.1	4.1
Weight per cubic foot (pounds).....	17.6	21.0	9.7	17.1	17.0	10.0	15.0
Weight in pounds (000).....	16,878	101,188	47,524	23,893	19,106	20,722	229,311
Cubic feet (000).....	957	4,825	4,882	1,400	1,121	2,076	15,261
<u>STATISTICS USED IN APPORTIONING COSTS OF PURCHASED TRANSPORTATION</u>							
Estimated average domestic haul (miles).....	448	1,104	924	367	331	309	805
Estimated ton-miles, domestic haul (000).....	3,779	55,870	21,948	4,379	3,160	3,199	92,335
Estimated cubic foot-miles, domestic haul (000)...	428,302	5,264,784	4,535,531	512,567	370,789	635,921	11,747,896

SPECIAL SERVICES ^{4/}

Fiscal Year 1984

Category	Registry	Certified	Insurance	Collect on Delivery	Special Delivery	Money Orders	Stamped Envelopes	Post Office Box
<u>REVENUE AND COST RELATIONSHIP</u>								
Per transaction (cents):								
Revenue.....	397.7	123.6	115.5	192.6	214.3	142.8	NA	NA
Attributable cost.....	437.8	84.9	83.0	140.2	255.1	71.9	NA	NA
Revenue less attributable cost.....	(40.1)	38.7	32.5	52.4	(40.8)	70.9	NA	NA
Revenue (millions).....	\$169.7	\$164.5	\$54.3	\$23.0	\$42.1	\$165.0	\$13.9	\$188.1
Attributable cost (millions):								
Variable cost.....	65.7	113.1	23.1	13.4	40.5	75.2	1.6	170.0
Other direct.....	3.6	-	15.9	3.3	-	1.3	8.7	-
Total variable cost.....	69.3	113.1	39.0	16.8	40.5	76.5	10.3	170.0
Specific fixed cost.....	117.5	-	-	-	9.7	6.6	-	-
Total attributable cost.....	186.8	113.1	39.0	16.8	50.1	83.1	10.3	170.0
Revenue less attributable cost (millions).....	(\$17.1)	\$51.4	\$15.3	\$6.3	(\$8.0)	\$81.9	\$3.6	\$18.1
Revenue as a percent of attributable cost.....	90.8%	145.4%	139.2%	136.9%	84.0%	198.6%	135.0%	110.6%
<u>QUANTITIES</u>								
Transactions (000).....	42,669	133,123	47,009	11,960	19,653	115,551	NA	NA

See accompanying notes

UNITED STATES POSTAL SERVICE

NOTES TO COST AND REVENUE ANALYSIS — STATISTICS BY CLASS OF MAIL

Year ended September 30, 1984

1. Fees

Fees associated with a specific class of mail are included in the reported revenue for that class. Such fees are also included in the reported revenue for a particular subclass if applicable.

2. Penalty Mail

U. S. Postal Service penalty mail volumes are excluded in the determination of the per piece and per pound figures shown.

3. Foreign Origin Mail

International mail costs include costs attributable to both U. S. origin and foreign origin mail. Volume statistics, however, do not include foreign origin mail.

4. Special Services on Penalty Mail

The revenues and attributable costs for performing special services in conjunction with other government agency penalty mail are included with the special services revenues and costs.

5. Other

All figures in the statements are rounded; detail may not add to totals. Percents are rounded to nearest decimal.

NA Denotes not applicable.

- Denotes zero value.

() Denotes negative value.

I Expanding the Interval Between Rate Increases



The Postal Service's plan to stretch rate intervals requires that customers consider budgeting postal costs in check to be vital to their interests and to their businesses.

The Postal Service's commitment to stretch rate intervals requires that customers consider budgeting postal costs in check to be vital to their interests and to their businesses.

To maximize its efforts in this area, the Postal Service undertook a number of efficiency and cost-related initiatives during the fiscal year.

Barcoding and Automation. In fiscal year 1988, 84 percent of all letter mail was processed on automated equipment, an increase of eight percent over the previous year. Also, total ZIP+4 mail coded by mailers increased 24 percent to 15 billion pieces.

To increase this participation, an integrated plan for automating mail processing and distribution operations was developed and focused on a concrete objective: processing of virtually all mail by ZIP. The plan recognizes the need to provide appropriate rate incentives to promote cost-effective mailings. It also calls for increased development and deployment of technologically advanced

equipment to enable the Postal Service to barcode mail when customers do not.

Establishing a goal for barcoding underscored the Postal Service's efforts to shift from labor-intensive manual and mechanical sorting of the mail to more cost-effective automated mail processing. Currently, sorting costs associated with manual processing of letters are 2.8 cents per piece, compared to 1.5 cents per piece when these operations are mechanized and 0.5 cent per piece when they are automated.

These efforts were supported by the continued development of new mail processing concepts. For example, a modification to existing bar code readers is under development to allow this equipment to scan a larger portion of the envelope to locate a customer address bar code. This technology will allow more mail to be moved from letter sorting machines to automated equipment.

Codes encoding technology also is being developed. This system will generate codes images of mail

Capital Investments

Estimated in millions of dollars





The Postal Service expects to harvest virtually all mail by 1995. Realizing that customer harvesting is not feasible for all customers, the Postal Service is testing a video encoding system which will enable operators of the terminals to add the bar code

that cannot be "read" by optical character readers. These images of the mail piece will be used to generate a corresponding bar code, which represents the delivery address.

Parcel sorting — currently a mechanized operation — has been targeted for future automated processing. Concepts for an advanced OCR/BCS/video encoding system for flats are under development.

Mailers involvement in automation and bar code planning also continued throughout the fiscal year. The Automation and Bar Code Group, a cross section of mail industry representatives, met regularly with postal officials to discuss ways of incorporating technology into more postal operations. Several concepts developed by the group — including those aimed at increasing customer use of the current Postnet bar code — are being studied. Among these concepts are an address block bar code and an advanced bar code to promote finer sorting as a means of reducing the time carriers spend arranging mail in the order it is delivered.

In addition to these efforts, the Postal Service continued its outward look for future mail processing concepts by hosting its third Advanced Technology Conference, attended in May by representatives of the United States and 16 foreign nations.

Capital Investment. The Postal Service dedicated a substantial portion of its limited capital resources to the procurement of flat sorting machines and bar code sorters.

These commitments followed previous years' expenditures for advanced automated processing equipment. During the year, 200 new multiline optical character readers and 150 new bar code sorters were put on line, extending automated processing capability to 215 major postal mail processing facilities. (At year's end the rate of delivery of new multiline optical character readers was about one per day.)

Construction continued on five major postal facilities scheduled for completion in Fiscal Year 1989. Innovation was stressed in all areas of postal real estate activity. Building schedules were reduced from an average 55 months to 38

bar mail mail processing is new, five times less expensive than mechanized handling, and more than ten times less expensive than manual sorting. For higher throughput, Technical Staff tested models of optical character readers No. 1241 and 1242, placed in operation in Fiscal Year 1989.



system at 30 percent efficiency increases. Savings for ink, design and construction were encouraged and a computer added. All of this, which combines the advantages of custom design with the cost-effectiveness and speed of standard plans, was utilized on 25 projects during fiscal year 1988.

At a much earlier in further studies in buildings to help reduce storage more than 20 years of age and to acquire information and other technology to improve production and service. The Postal Service plans to invest about \$100 million in the next five years.

Investing \$2 billion for facilities and \$3 billion for equipment and other mail processing, delivery and mail equipment.

To protect this planned investment authorized by the Board of Governors in October 1986, the Postal Service will support efforts in Congress to ensure a free and unified federal budget and seek to obtain an increase in its authorized mail voting from \$10 billion to \$100 billion. (The \$10 billion vote law in place was established in 1976 and has not been adjusted

for inflation. If adjustments for inflation were made, that law would have to meet \$100 billion.)

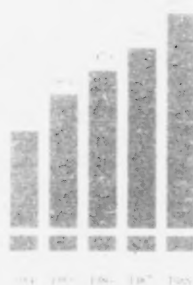
Worksharing. In May, the Postmaster General established a Special Projects Department to help our customers become up-to-date. The new department's first major effort was to identify new or expanded customer worksharing activities. This effort involved both postal management and members of the mailing industry, produced recommendations for new ideas similar with that estimated annual gross savings ranging from \$500 million to \$100 million. A management review of the recommendations is underway. Key initiatives being considered are:

- Automating and mechanizing all additional volumes and classes of mail.
- Increasing opportunities for customer processing.
- Improving packaging, containerization, materials handling and transportation systems.
- Encouraging the delivery of mail closer to its delivery point.
- Improving the quality of mail and household applied addresses.

- Encouraging mailer efforts to arrange mail in the order in which a carrier delivers it.
- Considering new services or enhancements to existing services to meet specific customer needs.
- Providing opportunities in postage payment systems.

Procurement. A new procurement policy, combining some of the most advantageous aspects of public and commercial procurement practices was put in place during the year. The new policy and procedures are designed to improve the timeliness and cost effectiveness of postal purchasing to invest more authority in procurement professionals, to provide for the identification and qualification of suppliers and to emphasize increasingly important areas of cost and competition.

Other mailer efforts to arrange mail in the order in which a carrier delivers it. The Rapid Equipment Deployment Inventory program was expanded to assure that 150 items critical to postal operations can be shipped anywhere in the country within 48 hours. Inventory Readings





Twenty-six post offices were designed with the computer-aided Kit of Parts in Fiscal Year 1988. Here, Mitchell H. Gordon, Senior Assistant Postmaster General, Administrative Services Group, visits the Bel Air MD Post Office, which was designed with the Kit of Parts.

were conducted in 24 field divisions to identify, redeploy or sell some \$10 million worth of low-use equipment. As a result of these roundups, which are scheduled to be conducted in all field divisions by the end of 1990, some 488,000 square feet of space was either freed for more suitable use or vacated from commercial warehouses.

Other Program Initiatives

A systemwide review of all costs was begun to identify and act upon 10 to 20 other initiatives with potential to save \$100 million to \$200 million each. Under consideration are operational savings in the non-automated areas of mail processing, transportation, mail equipment and supply, management information systems, vehicle maintenance and revenue protection systems.

The decision to "make or buy" is another area being reviewed. Historically, the Postal Service has "contracted out" for several services vital to its function, including the transportation of mail and contract postal units. The Postal Service is also investigating further opportunities to "contract out" certain other functions and activities to provide the best service to its customers.

The Gardiner, TN Post Office was built with the computer-aided Kit of Parts. Using the Kit of Parts reduces the design phase of the construction process for post offices by up to seven months.



II Providing Quality Service and Expanded Convenience



Providing more courteous retail service was a top priority throughout the fiscal year 1988. Peter E. Sisk, Associate Postmaster General, Marketing and Communications Group, Peter E. Sisk reviews retail service operations with Washington, DC, Lobby Director Marva Broadnax.

International Mail. The Postal Service handles approximately 40 percent of the world's mail. In recognition of the importance of the global marketplace, the focus on international matters was broadened during the fiscal year. In May, the position of Associate Postmaster General, International was created. This Associate was designated as chairman for the 20th Congress of the Universal Postal Union (UPU), which will be held in Washington, DC in 1989. The 169-member UPU is an official body of the United Nations, and its Congress will determine the policies under which international mail will be exchanged by member nations for the following five years.

In addition, the Associate oversees administration of the international mail function, both within the Postal Service and in our relationships with other postal administrations. This responsibility for external affairs has led to the Associate's providing leadership in multi-national organizations designed to expedite the world's mail exchanges.

Customer Conveniences. Expanding levels of retail services without increasing postal costs received priority attention during the fiscal year. Numerous

innovations in this area were implemented or expanded, under the umbrella of a new "Easy Stamp" service.

- The stamp consignment program was expanded to 22 of the nation's 35 largest supermarket chains, extending these convenient stamp sales outlets by some 14,000 locations. Sales in this program increased from \$30 million in Fiscal Year 1987 to \$150 million in Fiscal Year 1988.
- The Stamps by Mail program continued to gain in popularity. It was supplemented during the rate adjustment period by a temporary expansion of the Stamps by Phone program, which had been undergoing field testing. Customers used their telephones and credit cards to order more than \$4 million in stamps. (During the rate change, the Postal Service mailed a brochure with information about the new rates and "Easy Stamp" services to every American household.)
- The Postal Service also entered into a pilot agreement with Sears Roebuck and Co. during the year, to test the operation of postal outlets in Sears stores in Madison, WI and throughout the greater Chicago area.

Postal customers now can add postage stamps to their grocery shopping list. Twenty-two of the nation's 35 largest supermarket chains joined the Postal Service's stamp consignment program in Fiscal Year 1988. The service expanded to some 14,000 locations during the fiscal year.





The Postal Service signed an agreement with Sears Roebuck and Co. to operate 11 contract postal outlets in the Chicago and Madison, WI areas. These customer convenience centers offer "one-stop shopping" during all normal Sears hours, including Sundays and holidays.

These customer convenience centers, which are open during all normal Sears hours including Sundays and evenings, offer a full range of postal products, including Express Mail Service, certified mail and registered mail to customers.

- A joint agreement with SeaFirst Bank of Seattle will result in the development of a First Class stamp product that may be purchased through automated teller machines, and will provide customers with a range of automated banking and postal services.
- An agreement was reached with local transit authorities in Chicago and Washington, DC to install stamp vending equipment in train and subway stations.

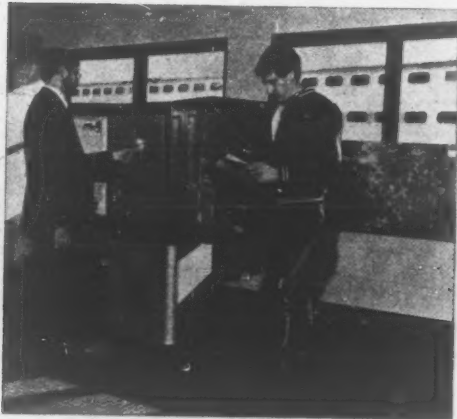
Product Enhancements. To complement the expanding sales network for postal services, numerous product enhancements were brought on line during Fiscal Year 1988.

- The introduction of an Express Mail letter rate was a key ratemaking initiative, and the utilization of the transportation hub in Terre Haute, IN, provided the opportunity to create a morning delivery network for

Express Mail shipments in 45 metropolitan markets. Despite increasing competition, Express Mail volume increased six percent.

- Express Mail International Service was introduced to 19 additional nations, including the Soviet Union, and now reaches 88 countries. Negotiations are underway to expand the reach of this product into 43 more countries.
- The marketing of other international services continued to be emphasized. Revenue from International Priority Airmail (available to every country except Canada) and International Surface Air Lift (available to 125 nations) increased by 57 percent and 11 percent, respectively.
- Express Mail Military Service, which offers expedited service to military personnel and their families and friends, saw an increase of 60 percent over the previous fiscal year, as revenue reached \$4 million.
- Testing of a new service, Accelerated Reply Mail (ARM), continued. The ARM program

The Postal Service reached agreement with transit authorities in the Chicago area to install stamp vending equipment in transportation stations. Similar vending convenience agreements are also being developed with the transit authority in Washington, DC, and with banks in other parts of the country.



will benefit firms that receive First Class Mail with cash value. The operating objective of ARM is to enable firms to process remittances from customers earlier.

- The Address Change Service for publishers was expanded to provide for the inclusion of all major national publications. A new on-line service from the publishers' computer centers to the Postal Service's Address Information Center in Memphis also was initiated.
- The introduction of a new consumer assistance service, Postal Answer Line, commenced in September and will quickly expand to 62 cities. These computerized systems will allow customers to obtain information about postal products and services by telephone, 24 hours a day.

Interagency Cooperation.

Adding to its efforts to provide more of what its customers need at the times and in the locations convenient to them, the Postal Service provides support to other federal agencies which need to reach the public.

- The Postal Service coordinated the logistical planning for, and delivered, the Public Health Service's widely publicized national mailing of 114 million AIDS information pamphlets. This was the largest mailing ever delivered.

• Post offices continued to be the people's contact points for Selective Service Registration, for the State Department's passport applications, for the Veterans Administration's program to provide flags for veterans' burials, and for the purchase of the Department of the Interior's migratory wildfowl hunting stamps.

• The Postal Service also assisted the Bureau of the Census in planning and preparing for the 1990 census.

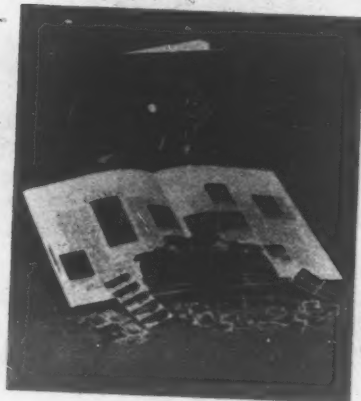
• The Postal Service created a noncompetitive hiring process for severely handicapped applicants in Fiscal Year 1988. This program allows the Veterans Administration and state agencies for the disabled (once certified by the Postal Service as having appropriate screening and development capabilities) to refer severely handicapped individuals for direct career appointments. More than 40 state agencies and the Veterans Administration participated in this plan in Fiscal Year 1988.

Community Relations.

Systemwide, a different kind of customer service activity continued throughout the fiscal year — the involvement of managers, supervisors and other employees in community affairs. Formal activities, such as postmaster speeches and community open



The courtesies of the Postal Service's retail network remains our 40,000 postal facilities and courteous professional service from postal career employees. Here, Los Angeles clerk Chastie Gains (right) assists a customer purchasing Express Mail service.



The Postal Service issued 62 stamps and stationery items in Fiscal Year 1988 — the most ever. More than 4 billion stamps were printed. Philatelic income for the fiscal year was more than \$14.2 million.



The Postal Inspection Service, the nation's oldest law enforcement agency, protects the Postal Service and its employees from criminal elements. Chief Postal Inspector Charles R. Christ (right) shows evidence through a comparison microscope with the victim's fingerprint in the finger that services private source operations.

houses and hours, ran into the thousands nationwide. Postal employees contributed countless hours of service as Santa's helpers, friends to the needy, coaches, band leaders, volunteer firefighters and in many other roles in a traditional outpouring of volunteerism.

Support for local community social service agencies through the Carrier Alert program also continued. This program, pioneered by the Postal Service and the National Association of Letter Carriers in 1982, involves letter carriers who watch participants' mailboxes for mail accumulations that might signal illness or injury. Accumulations of mail are reported by carriers to their supervisors who then notify a sponsoring agency through locally developed procedures for follow-up action. Since its founding, this lifeline has been cited for saving dozens of lives.

The Postal Service became involved in the national effort to increase literacy and participated in the *Readasaurus* program which encouraged summer reading to children. The sponsoring group, Reading Is Fundamental, asked the students to mail a postcard containing the names of three books they read over the summer. One million postcards were returned.

The Postal Service also launched a "Plant a Family Tree" program to encourage the nation's children to discover their family's genealogy by writing to their grandparents and by filling in a family tree made available through the nation's 40,000 post offices.

Service Measurement. Another aspect of customer service is the measurement of service quality. The Postal Service Origin-Destination Information System provides a snapshot of the elapsed time between when mail is received by a postal facility and when it is presented for delivery to the recipient. These measurements do not include a mail slot to mail slot measurement which is of primary concern to senders and receivers of mail. The Consumer Advocate's duties were expanded to include assessment of current service performance measurement systems, consideration of new measurement systems more relevant to postal customers and reporting of service performance to a variety of audiences.

Progress continued toward the establishment of a Third-Class Mail Analysis System to provide operationally useful data to postal managers and service performance data specific to individual participating mailers. A joint action

group involving the Postal Service and the direct mail industry is addressing deliverability and other areas of mutual interest and benefit.

System Integrity. The Postal Inspection Service, charged with protecting the public and the public's interest in the postal system, continued its efforts to eliminate consumer fraud and misrepresentations through the mail. It conducted audits of postal capital expenditures, operations and programs to determine that planned results are being achieved. The oldest federal law enforcement agency, the Inspection Service also protects the Postal Service from criminal elements.

Postal Inspectors conducted 3,140 mail fraud investigations during Fiscal Year 1988 and made 1,488 arrests. Nearly 44 percent of the victims of the frauds were consumers, more than 91 percent were businesses, and more than 13 percent of the crimes were directed against the Postal Service or other government agencies.

In Fiscal Year 1988, 644 civil complaints were filed under the false representation statute.

Postmaster General Anthony J. Frank (right) "Plant a Family Tree" letters from third grade mail king, Tennessee, mailed in May 1988. The "Plant a Family Tree" program encouraged children to write their grandparents to learn more about their family roots.



III Improving Working Relationships with Employees



Nearly 20,000 new postal employees received free training in Fiscal Year 1988. Here, senior Assistant Postmaster General Herman Robinson (right) directs a training class for new employees at the career career academy in Memphis, TN.

The nation's largest civilian employer, the Postal Service also is among the largest employers of minorities, veterans and handicapped workers.

Fostering greater cooperation between management and labor within that work force increases the discretionary effort of postal workers in dealing with customers. To encourage greater communication, participation and respect among managers and employees, three human resource strategies are in place:

- Improving the working environment within the Postal Service;
- Hiring, developing, retaining and training a highly qualified postal work force;
- Improving the functional effectiveness of human resource professionals within the Postal Service.

Progress toward each of these strategies was made throughout the fiscal year.

National Initiatives. At the national level, three leadership initiatives of note were begun with national postal unions.

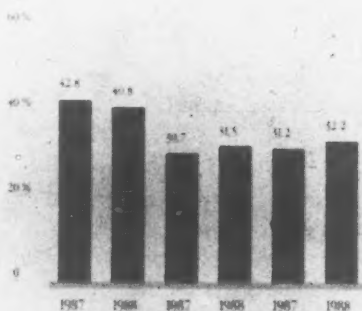
- The National Association of Letter Carriers and postal management signed a joint agreement to reduce the number of formal

grievance proceedings by 50 percent over the next year.

- A Labor Management Plan was developed in conjunction with the national unions to improve labor/management relationships and to enhance levels of trust, communication and dispute resolution. Local management and labor, with the assistance of Headquarters and regional union and management facilitators, worked together over an extended period of months to identify, discuss and resolve fundamental conflicts. The program was then introduced in Oklahoma City, where it has contributed to an 85 percent reduction in grievance appeals in that division. The plan also is working in North Suburban IL, and Metairie, LA.
- For the first time since Postal Reorganization, the Postmaster General spoke before the letter carriers' annual convention and the Board of Governors hosted a dinner for the leaders of the major unions (The National Association of Letter Carriers, later reciprocated).

Field Initiatives. Field managers also worked closely with local union officials to enhance levels of trust,

Veterans, Minorities, Females
Representation of Total Work
Force, Fiscal Year 1988



communication and the ability to resolve disputes.

- In St. Louis, Union Management Pairs (UMPs), a cooperative effort between the National Association of Letter Carriers and postal management, has cleared up a 600-case backlog of grievances and improved the working relationship dramatically. This innovative program assigns a team composed of one letter carrier and one manager to review disagreements, to encourage the parties to resolve differences, and if necessary to develop a final resolution.
- In Syracuse, NY, employees — working with the National Task Force on Child Care established by the Postal Service and the Joint Bargaining Committee of the American Postal Workers Union and the National Association of Letter Carriers — opened the "Little Eagles Child Care Center." This pilot facility, the first of its kind in the Postal Service, operates around the clock and provides affordable care for up to 35 children per tour. Employees formed a corporation to operate and fund

the center, and the Postal Service contributed space in the Syracuse Management Sectional Center.

Management Association Initiatives. The Postal Service joined with the National League of Postmasters, the National Association of Postmasters of the United States and the National Association of Postal Supervisors to implement "Management by Participation." This initiative will sponsor projects to engage all levels of management and labor in the process of creating a more participative culture within the Postal Service.

- **Training Initiatives.** The recruitment and retention of highly qualified people throughout the nation continued to receive emphasis during Fiscal Year 1988.
- A new Technical Training Center in Norman, OK was completed and, when fully operational, will prepare more than 18,000 students to maintain the variety of mechanized and automated equipment being deployed throughout the postal system. In order to meet the demand for qualified maintenance

personnel, training will be conducted in two shifts.

- A new Computer Assisted Scheme Training program, which teaches clerks how to route the mail correctly in 12 percent less time, is being implemented.
- Innovative teletraining techniques are being tested to increase technical training opportunities while reducing travel-related costs.
- A career pattern program has been established in an effort to develop future Field Division General Managers. The program, currently involving about 60 postal executives, provides a "road map" to assure that field managers are provided with balanced experience.
- A management intern program was established to identify graduate business students with high potential for entry into the Postal Service's structured career development programs.

Employee Involvement. Significant cost reductions were achieved through the continued utilization of the Employee Involvement/Quality of Working Life and related programs. Three

innovative programs, among many, illustrate the potential of these efforts:

- In New Brunswick, NJ, a mail handlers' quality circle addressed the problem of improperly prepared pallets and, by working with the affected customer, produced more efficient service while capturing \$160,000 in annual savings.
- A letter carrier team in Oklahoma City developed a method to adjust routes which saved some \$79,000.
- In Los Angeles, a work team developed a paper recycling plan which produced \$50,000 in unexpected revenue.

In addition, some 10,000 employee suggestions were adopted and saved the Postal Service more than \$5 million.

The National Association of Letter Carriers (NALC) and Postal management signed a joint agreement to reduce the number of formal grievances by 75 percent in the next year. NALC Executive Vice President Francis Gannon (far left) and Assistant Postmaster General, Labor Relations, Joseph Mallon (far right) look on as Postmaster General Anthony M. Frank (middle left) and NALC President Vincent Scambrino (middle right) seal the agreement with a handshake.



Discussion of Financial and Operating Results



The Postal Service has received its Public Service Appropriations since 1972. (Source: U.S. Congress, Senate, Armed Services Committee, Finance Group, after meeting about Postal Service's declining receipt of Federal appropriations since 1972.)

Financial Performance. The Postal Service incurred a net loss of \$596.9 million for the fiscal year which ended September 30, 1988.

The result would have been significantly closer to break even had the Omnibus Budget Reconciliation Act of 1987 not required \$510 million in payments for retirees' cost-of-living allowances and health benefits.

In the past 10 years, the Postal Service has operated in the black five times and in the red five times. Over that period, the Postal Service had a surplus of \$345 million.

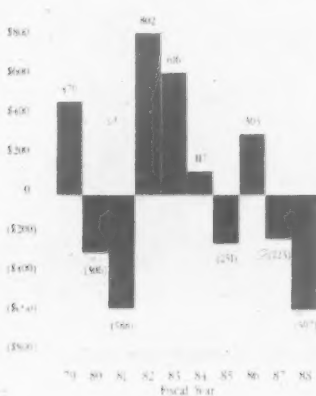
Total revenue in Fiscal Year 1988 amounted to \$35.9 billion, which was in line with projections for the fiscal year. The total revenue represented a \$3.4 billion increase over Fiscal Year 1987. Volume increased approximately 4.5 percent over the previous fiscal year. The 11 percent increase in operating revenue was due to the April rate increase and the growth in total volume noted. Revenue from operations was \$35.5 billion (including the Revenue forgone appropriation), and investment income was \$386 million. Net revenue gap for Fiscal Year 1988 due to rate

implementation was \$1.98 billion. This includes revenue gains of \$2.5 billion from rate variances and revenue losses of \$556 million from declines in volume after rate implementation.

Expenses for the fiscal year totaled \$36.5 billion, and also were very close to projections for the year. Expense increases in health benefits, cost-of-living allowances and the Omnibus Budget Reconciliation Act requirements all were significant for the year.

Growth in volume and expansion of the delivery network by 1.8 million addresses resulted in new expenses totaling more than \$500 million. Salaries and employee benefits expenses also rose by 11.9 percent for the fiscal year. A significant factor in this increase was the cash payment of \$350 million to the Civil Service Retirement and Disability Fund in accordance with the terms of the Omnibus Budget Reconciliation Act. Total health benefits costs, including the \$160 million payment required by the Omnibus Budget Reconciliation Act, were \$1.6 billion. This represents an increase of almost \$600 million or 60 percent greater than Fiscal Year 1987.

Net Income (Loss)
(dollars in millions)





The Law Department, in cooperation with the Postal Inspection Service, investigated 633 civil complaints under False Representation statutes in Fiscal Year 1988. Louis A. Cox, General Counsel, (right) oversees the Law and Government Relations Departments.

The financial responsibilities of the Federal Employees Retirement System (about \$754 million more than would have been incurred under the Civil Service Retirement System) also were felt. Total retirement expenses (including Social Security payments) increased \$918 million over Fiscal Year 1987.

Productivity. Postal Service workload increased 0.6 percent faster than labor usage during the fiscal year. Total factor productivity (TFP) for the fiscal year, which takes into account the share of mail volume presorted by mailers, increased use of automated and mechanized equipment, facilities development and growth in deliveries, increased by 0.1 percent. This TFP was the net result of substantial increases in the first three quarters followed by a decline of 1.5 percent in the fourth quarter. Workload in the fourth quarter was well below plan, while labor usage exceeded plan. From 1971 through 1987, the Postal Service's TFP has increased on average by 0.3 percent.

the same level of increase as in the non-farm private sector.

Capital Investments. The Omnibus Budget Reconciliation Act limited new capital commitments for the fiscal year to \$625 million. (The original plan for new capital commitments was \$2.4 billion.) Commitments were prioritized to ensure that limited resources were placed on those capital investments with the greatest impact on productivity.

Capital commitments of \$92 million were made for automated and other mail processing equipment during the fiscal year. Commitments of \$393 million related to facilities programs, \$64 million for customer service equipment, \$65 million for postal support equipment and \$10 million for vehicles also were made.

Further limitations on Fiscal Year 1989 capital commitments were included in the Omnibus Budget Reconciliation Act of 1987, and a discussion of the impact of these measures is included in

Total Factor Productivity: USPS vs Private Non-Farm Sector

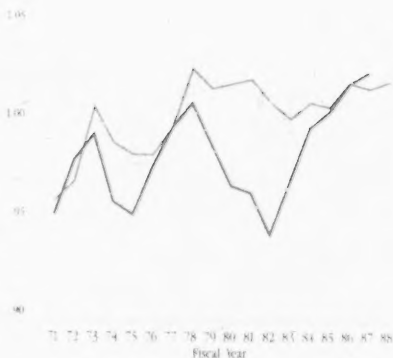
Index 1977 = 1.00

— USPS
— Private Non-Farm Sector

This chart reflects the cumulative change in total factor productivity (TFP) since 1977. Postal Service TFP has grown 0.3% per year on average, essentially the same as the entire private non-farm sector of the economy.

(Note: For 1977 and 1980 the Postal Service TFP and the Private Sector TFP were the same. Private Sector TFP for 1985 had not been calculated at press time.)

Source: USPS and Bureau of Labor Statistics



the notes to Financial Statements of this report.

A new \$12.9 billion capital investment plan for Fiscal Years 1989-1993, reflecting the limitations of the Act, was developed during the fiscal year and was approved by the Board of Governors in October 1988. This plan includes modest increases in the later years to compensate for the impact of the Act and reflects the Postal Service's commitment to automation. Planned commitments include \$6.7 billion for facility-related projects, \$4.6 billion for mail processing equipment, \$443 million for vehicles and \$1.2 billion for customer service equipment and postal support equipment.

Service Performance. Although down slightly from the previous fiscal year, service performance based upon the Origin-Destination Information System (ODIS) measurement remained high. Overnight Stamped First-Class Mail met its standard of 95 percent availability for delivery, nearly matching Fiscal Year 1987's mark of 96 percent. Performance for overnight-committed metered First-Class Mail was 91 percent,

four points below the standard. Service performance for second- and third-day committed First-Class Mail ranged from 85 percent to 89 percent on-time overall. The on-time performance for Express Mail service reached 93.4 percent, and the new morning network delivery performance was nearly 95 percent by year's end.

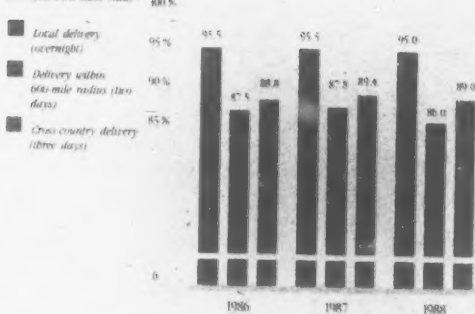
In another measure of service performance — customer feedback — the effects of the Omnibus Budget Reconciliation Act were apparent. Complaints pertaining to retail hours, lobby lines and window transaction errors increased sharply in the second quarter of the fiscal year, when the Postal Service announced its adjustment of retail hours. Average customer contacts peaked at a monthly level of approximately 4,000 in the third quarter and dropped sharply (to approximately 500 per month) when retail hours were restored in mid-September.

The National Tracking Study — which surveys about 1,000 customers twice a year — continued to reflect consumer confidence in the Postal Service. The most recent survey conducted in April indicated that 79 percent

of these respondents said their perceptions of the Postal Service were either "very favorable" or "somewhat favorable." These results compare with an overall favorable rating of 83 percent in the previous survey conducted at the beginning of Fiscal Year 1988 and with 81 percent in April 1985, shortly after the Postal Service implemented its last general rate increase prior to 1988.

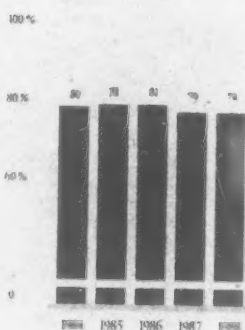
National Service Performance

(Stamped First-Class Mail)



National Tracking Study

The National Tracking Study reflected continuing consumer confidence in the Postal Service. This chart illustrates the results of the April surveys from the last five years. In April 1988, 79 percent of respondents perceived the Postal Service as "very or somewhat favorable."



Financial Statements

Balance Sheets

United States Postal Service

Sept. 30, 1988

Sept. 30, 1987

Assets

(dollars in thousands)

Current assets		
Cash and cash equivalents—Note 1	\$ 1,162,753	\$ 1,815,966
U.S. Government securities, at amortized cost, which approximates market	2,784,432	2,803,085
Receivables		
Foreign countries	326,768	339,624
U.S. Government	226,780	154,846
Accrued interest	29,641	52,896
Other	61,650	54,509
	644,839	601,875
Less allowances	22,869	21,853
	621,970	580,022
Supplies, advances and prepayments	162,667	141,451
Total current assets	4,731,822	5,340,524
Other assets—Note 5	43,418	21,104
Property and equipment, at cost—Note 5		
Buildings	6,210,450	5,462,994
Equipment	4,081,902	3,440,913
Land	1,037,934	837,640
	11,330,286	9,741,547
Less allowances for depreciation	3,528,994	3,113,803
	7,801,292	6,627,744
Construction in progress	1,526,849	1,538,895
Leasehold improvements, net of amortization	208,886	175,123
	9,537,027	8,341,762
Deferred retirement costs—Note 4	20,389,995	18,383,823
	\$54,672,262	\$32,087,213

	Sept. 30, 1986	Sept. 30, 1987
<i>(Values in thousands)</i>		
Liabilities and Equity (Net Capital Deficiency)		
Current liabilities		
Compensation and employees' benefits	\$ 1,559,258	\$ 2,074,855
Estimated prepaid postage	1,100,000	1,084,000
Payables and accrued expenses		
Foreign countries	962,480	964,042
U.S. Government	241,977	187,609
Other	249,775	529,901
Prepaid permit mail and box rentals	859,238	1,001,642
Outstanding postal money orders	786,690	678,472
Current portion of long-term debt	456,185	599,965
Total current liabilities	5,499,509	5,695,152
Long-term debt, less current portion—Note 5	5,612,704	4,454,625
Other liabilities		
Amounts payable for retirement benefits—Note 4	19,740,845	17,934,754
Workers' compensation claims	5,467,000	5,118,000
Employees' accumulated leave	882,580	858,497
Other	30,000	20,000
Total other liabilities	24,020,425	21,911,251
Commitments and contingencies—Notes 6, 6 and 7		
Equity (net capital deficiency)		
Capital contributions of the U.S. Government	5,058,500	5,040,251
Deficit from operations since commencement on July 1, 1971	(5,498,954)	(2,902,024)
Total equity (net capital deficiency)	(440,454)	158,227
	\$54,672,262	\$52,067,215

See notes to financial statements.

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Statements of Operations and Changes In Equity (Net Capital Deficiency)

United States Postal Service	Year Ended Sept. 30, 1986	Year Ended Sept. 30, 1987
<i>(Values in thousands)</i>		
Operating revenue—Note 2	\$55,552,755	\$52,178,112
Operating expenses		
Compensation and employees' benefits—Notes 3 and 4	30,478,649	27,228,844
Other	5,660,457	5,200,843
Total operating expenses	36,139,106	32,519,687
Loss from operations	(986,455)	(541,575)
Interest income	386,076	527,180
Interest expense	(416,493)	(208,293)
Net loss	(996,872)	(222,688)
Equity—beginning of year	158,227	901,868
Capital equipment transferred to U.S. Government	(1,751)	(955)
Equity (net capital deficiency)—end of year	(\$ 440,454)	\$ 158,227

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See notes to financial statements.

Statements of Cash Flows

United States Postal Service	Year Ended Sept. 30, 1988	Year Ended Sept. 30, 1987
(dollars in thousands)		
Cash flows from operating activities:		
Net loss	(\$ 596,910)	(\$ 222,686)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	510,489	414,290
Increase in non-current workers' compensation claims	249,000	70,000
Increase in estimated prepaid postage	112,000	65,000
Increase in prepaid permit mail and box rentals	108,218	64,196
Increase in outstanding postal money orders	45,220	50,376
Increase in employees' accumulated leave	44,085	23,564
Increase in other liabilities	10,000	—
Increase in retirement costs, net	(200,063)	(36,503)
(Decrease) increase in payables and accrued expenses	(227,404)	159,524
(Decrease) increase in accrued compensation and employees' benefits	(115,597)	306,165
Increase in receivables	(41,948)	(57,294)
(Increase) decrease in supplies, advances and prepayments	(21,216)	22,251
Net cash provided (used) by operating activities	(124,128)	859,083
Cash flows from investing activities:		
Sale (purchase) of U.S. Government securities, net	18,653	(1,332,958)
Purchase of property and equipment, net	(1,707,505)	(1,663,769)
Net cash used in investing activities	(1,688,852)	(2,996,727)
Cash flows from financing activities:		
Increase in long-term debt	1,414,000	1,635,000
Decrease (increase) in other assets	7,686	(1,727)
Payments on long-term obligations	(261,919)	(141,626)
Net cash provided by financing activities	1,159,767	1,491,647
Net decrease in cash and cash equivalents	(653,215)	(665,997)
Cash and cash equivalents at beginning of year	1,815,966	2,481,963
Cash and cash equivalents at end of year	\$1,162,753	\$1,815,966
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 451,674	\$ 244,932
Cash received during the year for interest	\$ 409,271	\$ 291,497

See notes to financial statements

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United States
Postal Service
Notes to Financial
Statements

September 30, 1988 and 1987

Note 1
Postal Reorganization and
Accounting Policies

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the (unexpended) balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

The Postal Service adopted Statement of Financial Accounting Standards (SFAS) No. 95, "Statement of Cash Flows," in Fiscal Year 1988, and accordingly has restated the comparative financial statements for Fiscal Year 1987.

Cash equivalents include highly liquid instruments with maturities of 90 days or less in accordance with SFAS No. 95.

Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful life. Repairs and maintenance costs which do not materially extend the life of assets are expensed as incurred.

Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to approximately \$47,000,000 in Fiscal Year 1988 and \$41,000,000 in Fiscal Year 1987.

Workers' compensation costs are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors.

Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Amounts payable for retirement benefits reflect the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the Fund) arising from increases in basic pay in an amount equal to the present value of the equal annual installments due to the Fund and payable over a 30-year time period. Amounts applicable to operations of future years are charged to deferred retirement costs and are subsequently amortized through operating expenses.

Effective with the passage of Public Law 99-272, the Postal Service became responsible for paying the employer's share of health benefits for its career employees retiring on or after October 1, 1986. These costs totaled approximately \$53,000,000 in Fiscal Year 1988 and \$10,000,000 in Fiscal Year 1987.

Note 2
Revenue Forgone

Included in operating revenue is revenue forgone. Revenue forgone represents reimbursement

to the Postal Service for revenues lost as a result of changing lower rates for certain mail categories which Congress has determined should be subsidized through tax dollars. Accordingly, the Postal Reorganization Act authorizes that the Postal Service receive revenue forgone to compensate for this lost revenue. Revenue forgone received during Fiscal Years 1988 and 1987 totaled \$17,000,000 and \$650,000,000, respectively.

Note 3
The Omnibus Budget
Reconciliation Act of 1987

The Omnibus Budget Reconciliation Act (OBRA) of 1987 required the Postal Service to make additional payments of \$350,000,000 to the Civil Service Retirement and Disability Fund and \$300,000,000 to the Federal Employee Health Benefits Fund during Fiscal Year 1988. Both these amounts are included in expenses for compensation and employee benefits in the Statements of Operations and Changes in Equity (net Capital Deficiency) for Fiscal Year 1988. For Fiscal Year 1989, the Postal Service is required to pay an additional \$270,000,000 to the Federal Employee Health Benefits Fund.

The OBRA also limited capital investment commitments to \$625,000,000 for Fiscal Year 1988 and \$1,945,000,000 for Fiscal Year 1989 and requires a deposit of \$465,000,000 in an escrow account with the U.S. Treasury by October 31, 1988. The deposit is refundable on October 1, 1989 so long as the Postal Service complies with the savings provisions specified by OBRA. The savings provisions require the Postal Service to reduce operating expenses by \$900,000,000 and \$270,000,000 in Fiscal Years 1988 and 1989, respectively. Such provisions were certified by the General Accounting

Office (GAO) as having been met by the Postal Service for Fiscal Year 1988 in their report to Congress on October 31, 1988.

Note 4
Retirement Programs

Description of Plans and Contribution Rates. The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the Civil Service Retirement Program (the Program). Under this Program, the Postal Service and employees hired prior to January 1, 1984 each contribute 7 percent of basic annual salary to the Civil Service Retirement and Disability Fund (the Fund) and 1.45 percent of gross wages for Social Security for Medicare in 1988 and 1987.

Employees hired between January 1, 1984 and January 1, 1987 were covered by the provisions of the Dual Civil Service Retirement/Social Security System until January 1, 1987. Certain employees with prior government service continue to be covered by such provisions. During Fiscal Years 1988 and 1987, these employees contributed 0.5 percent and 1.4 percent, respectively, of basic annual salary to the Fund, while the Postal Service contributed 7 percent each year. These employees and the Postal Service each contributed 7.51 percent and 7.15 percent of gross wages for Social Security for Fiscal Years 1988 and 1987, respectively.

From January 1, 1987, employees hired after January 1, 1984, except as noted above, are subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. Employees hired prior to January 1, 1984, were able to elect participation in FERS between July 1, 1987 and December 31, 1987.

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and between April 1, 1988 and June 30, 1988. FERS is a three tier retirement system consisting of Social Security, a basic annuity plan and a thrift savings plan.

During Fiscal Years 1988 and 1987, FERS required contributions to the Social Security Trust Fund amounting to 7.51 percent and 7.19 percent, respectively, of gross wages for Social Security from the Postal Service and participating employees. In addition, the Postal Service and participating employees contributed 12.86 percent and 14 percent, respectively, of basic annual salary for the basic annuity plan in Fiscal Year 1988 and 15.5 percent and 13.5 percent, respectively, in Fiscal Year 1987.

The Postal Service is also required to contribute a minimum of one percent per annum of the basic annual salary of participating employees to the thrift savings plan. Contributions by employees to the thrift savings plan are voluntary and are fully matched by the Postal Service up to 3 percent of basic annual salary and at a 50 percent rate between 3 percent and 4 percent of basic annual salary.

Unfunded Liability.—Under the Civil Service Retirement Program, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the Fund attributable to Postal Service employee management agreements that authorize increases in basic annual salary in which benefits payable from the fund are computed. The estimated increase in the unfunded liability is determined by the Office of Personnel Management (OPM) and paid by the Postal Service in 50 equal annual installments with interest computed at the rate provided.

in the most recent valuation of the Civil Service Retirement System (currently 5 percent). The first payment thereof is due at the end of the fiscal year in which an increase in the basic annual salary becomes effective.

Contributions to the basic annuity plan of FERS are determined by OPM with the objective that benefits under FERS be fully funded. Unfunded liabilities of the basic annuity plan, if any, related to Postal Service employees as determined by OPM will be funded by the Postal Service through supplemental contributions over 30 years with interest.

The increases in the unfunded liability for retirement benefits under the Civil Service Retirement Program in Fiscal Years 1988 and 1987 were \$2,677,343,000 and \$493,552,000, respectively. The 1988 increase includes \$2,219,720,000 for cost-of-living allowances (COLAs) paid in Fiscal Years 1985-1987 under the provisions of the 1984 employee management agreement. As a result of the 1987 contract negotiations, these COLA amounts were included in basic annual salary in October 1987. COLAs accumulated under the 1987 agreement will not become part of basic annual salary until February 1990. The total increases in the annual payment that resulted from increases in basic annual salary were \$165,870,000 (of which \$127,520,000 related to COLAs) for Fiscal Year 1988 and \$48,315,000 for Fiscal Year 1987.

The estimated future minimum payments required to fund amounts payable for retirement benefits on September 30, 1988 are as follows:

Fiscal Year	Amount
1989	\$ 1,567,242,000
1990	1,567,242,000
1991	1,567,242,000
1992	1,567,242,000
1993	1,567,242,000
Thereafter	26,838,019,000
	\$4,694,269,000
Less amount representing interest and the portion classified as a current liability	14,953,426,000
	\$19,740,843,000

Aggregate retirement expenses, including payments for Social Security, for Fiscal Years 1988 and 1987 were \$4,153,000,000 and \$5,215,000,000, respectively, including \$1,568,204,000 and \$1,566,525,000, respectively, attributable to amortization of deferred retirement costs and interest on the unfunded liability, and \$106,660,000 and \$50,151,000, respectively, for Postal Service contributions to the Thrift Savings Plan. Also included in retirement expenses in Fiscal Year 1988 is a \$550,000,000 special payment to the Fund pursuant to requirements of the OBRA (See Note 5).

Note 5 Long-Term Debt and Interest Costs

The Postal Reorganization Act authorizes the Postal Service to issue and sell obligations not to exceed \$10,000,000,000 outstanding at any one time. The net increase outstanding in any one year shall not exceed \$1,500,000,000 for capital improvements and \$500,000,000 for operating expenses. Such obligations shall not be obligations of the U.S. Government unless the Secretary of the Treasury, upon request of the Postal Service, determines that it would be in the public interest to pledge the full faith and credit of the Government of the United States.

The 6.78% Postal Service Bonds, Series A, were issued under a Trust Indenture dated February 1, 1972, and are secured by a first lien on the revenue, income, fees, rents, appropriations, and other receipts of the Postal Service; the proceeds of all obligations issued by the Postal Service.

and all sinking and improvement funds established pursuant to the Trust Indenture. On July 31 of each year, the Postal Service is required to deposit in a sinking and improvement fund the sum of \$10,000,000 either in cash or reacquired Series A Bonds. However, the Trust Indenture further provides that, at the option of the Postal Service, such sinking fund requirements may be applied to the payment of costs of capital additions or improvements to properties of the Postal Service. Since the commencement of the sinking fund in 1978, the Postal Service has applied \$104,100,000 to the construction of mail facilities. The balance in the sinking fund (\$5,890,000 in 1988 and \$12,200,000 in 1987) is classified with other assets in the accompanying balance sheets. The bonds are redeemable prior to maturity, at the option of the Postal Service, at the principal amount plus accrued interest.

Long-term debt consists of the following:

	September 30	
	1988	1987
6.78% Postal Service Bonds, Series A, due February 1, 1997	\$ 250,000,000	\$ 250,000,000
Notes payable to Federal Financing Bank:		
8.075% payable \$32,000,000 each year to May 31, 2000	584,000,000	416,000,000
7.80% payable \$15,000,000 each year to May 31, 2001	195,000,000	210,000,000
10.475% payable \$38,800,000 each year to May 31, 2010	853,600,000	892,400,000
7.591% payable \$50,000,000 each year to May 31, 2011	1,150,000,000	1,200,000,000
8.474% payable \$40,000,000 each year to May 31, 2012	720,000,000	750,000,000
8.908% payable \$15,400,000 each year to May 31, 2012	849,600,000	885,000,000
9.074% payable \$60,000,000 each year to May 31, 2012	1,440,000,000	—
Mortgage notes payable including interest of 4.75% to 12.5% maturing from Fiscal Years 1989 through 2015 secured by land, buildings and equipment with a carrying amount of \$135,000,000 (aggregate annual installments approximate \$6,000,000)	57,704,000	128,425,000
	5,879,904,000	4,727,825,000
Less current portion	267,200,000	294,200,000
	\$5,612,704,000	\$4,433,625,000

Note 6 Commitments

At September 30, 1988, the estimated cost to complete approved Postal Service capital projects was approximately \$1,500,000,000.

Total rental expense for the years ended September 30, 1988 and 1987 is summarized as follows:

	1988	1987
Noncancelable real estate leases including related taxes (1988: \$40,000,000; 1987: \$17,800,000)	\$43,700,000	\$405,000,000
Facilities leased from General Services Administration subject to 120-day notice of cancellation	11,700,000	3,200,000
Equipment and other short-term rentals	6,100,000	66,800,000
	\$61,500,000	\$509,000,000

At September 30, 1988, the future minimum rentals for all noncancelable leases approximate the following:

Year	Total
1989	\$ 405,000,000
1990	427,000,000
1991	268,000,000
1992	209,000,000
1993	150,000,000
Thereafter	686,000,000
	\$1,915,000,000

Most of these leases contain renewable options for periods ranging from three to twenty years. Certain noncancelable real estate leases have options to purchase the facilities at prices specified in the leases.

Report of Independent Public Accountants

Board of Governors United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service (Postal Service) at September 30, 1988 and 1987, and the related statements of operations and changes in equity (net capital deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence

supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1988 and 1987, and the results of operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Young & Company

Arthur Young & Company
Washington, DC

November 17, 1988

Note 7 Contingencies

Several equal employment opportunity, employee compensation and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages, and suits and claims arising out of postal contracts.

In the opinion of management and General Counsel, adequate provision has been made for amounts which may become due under the suits, claims, and proceedings discussed in the preceding paragraph.

Financial History Summary

	1988	1987	1986	1985	1984
Statement of Operations					
	(dollars in thousands)				
Operating revenue	\$35,035,753	\$31,528,112	\$30,102,091	\$27,736,071	\$25,313,554
Public service appropriation	0	0	0	0	0
Revenue forgone appropriation	517,000	650,000	715,836	969,620	879,000
Total operating revenue	35,552,753	32,178,112	30,817,927	28,705,691	26,192,554
Salaries and benefits	30,478,649	27,228,844	25,575,894	24,349,087	22,157,261
Other expenses	5,640,537	5,290,845	5,140,701	4,858,114	4,200,092
Total operating expenses	36,119,186	32,519,689	30,716,595	29,207,201	26,357,353
Operating income (loss)	(966,433)	(341,577)	101,332	(901,310)	(164,799)
Other income (loss)	(30,477)	118,891	205,276	250,030	282,151
Net income	(\$ 996,910)	(\$ 222,686)	\$ 304,608	(\$ 251,480)	\$ 117,352
Balance Sheet					
Assets					
Current assets	\$ 4,731,822	\$ 5,340,524	\$ 4,658,520	\$ 3,234,741	\$ 3,332,636
Property, plant and equipment, deferred retirement costs and other assets	29,940,440	26,746,689	25,155,662	23,825,476	18,227,022
Total assets	\$34,672,262	\$32,087,213	\$29,814,182	\$27,060,217	\$21,559,658
Liabilities					
Current liabilities	\$ 5,499,569	\$ 5,605,132	\$ 4,846,471	\$ 4,311,893	\$ 4,375,896
Other liabilities	24,020,423	21,911,231	21,513,194	20,706,697	15,780,759
Long-term debt—bonds, notes and mortgages	5,612,704	4,434,621	3,092,649	1,983,263	1,092,264
Equity (net capital deficiency)	(460,434)	138,227	361,868	58,364	310,739
Total liabilities and equity	\$34,672,262	\$32,087,213	\$29,814,182	\$27,060,217	\$21,559,658
Analysis of Changes in Equity (Net Capital Deficiency)					
Beginning balance	\$ 138,227	\$ 361,868	\$ 58,364	\$ 310,739	\$ 111,770
Net income (loss)	(996,910)	(222,686)	304,608	(251,480)	117,352
Capital contributions	(1,751)	(955)	(1,104)	(895)	81,617
Ending balance	(\$ 460,434)	\$ 138,227	\$ 361,868	\$ 58,364	\$ 310,739

**Impact of Revenue Forgone Appropriation*
on Revenues Fiscal Year 1988**

Classes of Service	Total Income of Service	Income From Revenues	Income From Appropriations	Appropriation as a Percentage of Income
(dollars in millions)				
First-Class Mail	\$20,738.7	\$20,738.7	none	none
Priority Mail	1,219.9	1,219.9	none	none
Express Mail	505.3	505.3	none	none
Mailgram	11.8	11.8	none	none
Second-Class Mail				
Within the country	\$ 145.4	\$ 98.8	\$ 46.6	32.0%
Outside the country				
Nonprofit publications	258.1	210.1	48.0	18.6%
Classroom publications	9.4	7.7	1.7	18.1%
Regular rate publications	1,065.8	1,065.4	0.4	0.0%
Fees	11.4	11.4	none	none
Total Second-Class Mail	\$ 1,490.1	\$ 1,393.4	\$ 96.7	6.5%
Third-Class Mail				
Single piece rate	\$ 162.1	\$ 162.1	none	none
Regular bulk rate	6,055.9	6,055.9	none	none
Nonprofit bulk rate	1,262.0	899.6	\$ 402.4	31.9%
Fees	53.1	53.1	none	none
Total Third-Class Mail	\$ 7,533.1	\$ 7,150.7	\$ 402.4	5.3%
Fourth-Class Mail				
Parcels (zone rate)	\$ 589.8	\$ 589.8	none	none
Bound printed matter	200.8	200.8	none	none
Special-rate matter	222.9	222.9	none	none
Library materials	66.9	57.5	\$ 9.4	14.1%
Fees	1.9	1.9	none	none
Total Fourth-Class Mail	\$ 882.3	\$ 872.9	\$ 9.4	1.1%
U.S. Government (franked and penalty) mail	\$ 1,078.7	\$ 1,078.7	none	none
Free mail for the blind and handicapped	27.0	—	\$ 27.0	100.0%
International mail	971.5	971.5	none	none
Totals	\$34,458.4	\$33,922.9	\$ 535.5	1.6%
Adjustment for prior years			- 18.5	
Total			\$ 517.0	

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is given to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

Source of Income
Fiscal Year 1988



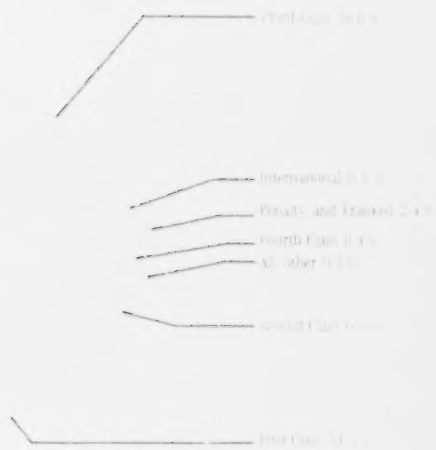
Analysis of Expenses
Fiscal Year 1988



Analysis of Mail Volume Fiscal Year 1988

	1988	1987	Percent Change
<i>Domestic Mail</i>			
First-Class	82.12	80.87	1.4
Second-Class	10.35	10.33	1.2
Third-Class	64.00	63.00	1.6
Fourth-Class	1.50	1.50	0.0
Priority and Bulk Mail	96	119	23.1
Overweight	10	78	-7.8
Other	10	90	10.4
<i>Total</i>	<i>164.07</i>	<i>169.47</i>	<i>-3.2</i>

Composition of Mail Fiscal Year 1988



Operating Statistics

Classes of Mail	1988	1987	1986	1985	1984
<i>(in thousands of units indicated)</i>					
First-Class					
Pieces, number.....	82,316,607	78,869,309	76,186,648	72,440,277	68,428,570
Weight, pounds.....	3,072,894	2,970,439	2,811,578	2,662,593	2,511,893
Revenue.....	\$20,738,733	\$18,786,027	\$18,034,926	\$16,739,909	\$15,215,938
Priority Mail					
Pieces, number.....	404,653	354,331	329,896	307,815	293,442
Weight, pounds.....	815,895	763,085	704,027	672,446	656,085
Revenue.....	\$ 1,219,898	\$ 1,085,636	\$ 1,010,709	\$ 959,989	\$ 928,436
Express Mail *					
Pieces, number.....	44,120	41,531	40,095	43,939	42,819
Weight, pounds.....	81,789	76,832	125,325	140,002	141,518
Revenue.....	\$ 505,295	\$ 498,733	\$ 490,782	\$ 502,482	\$ 457,656
Mailgrams					
Pieces, number.....	19,618	21,900	25,540	31,266	34,329
Revenue.....	\$ 11,832	\$ 13,361	\$ 17,469	\$ 14,906	\$ 12,811
Second-Class					
Pieces, number.....	10,448,439	10,324,309	10,587,904	10,379,515	9,522,476
Weight, pounds.....	4,107,698	4,012,421	3,971,641	3,965,545	3,852,029
Revenue.....	\$ 1,393,425	\$ 1,279,847	\$ 1,222,327	\$ 1,092,927	\$ 1,025,020
Third-Class					
Pieces, number.....	61,970,095	59,733,198	55,048,946	52,170,257	48,248,714
Weight, pounds.....	7,579,329	7,155,038	6,543,988	6,452,647	5,786,583
Revenue.....	\$ 7,130,662	\$ 6,147,551	\$ 5,606,268	\$ 4,886,566	\$ 4,240,832

* Express Mail statistics have been restated to represent Domestic Express Mail service only. Statistics for International Air Mail have been restated to reflect this change.

Classes of Mail	1988	1987	1986	1985	1984
<i>(in thousands of units indicated)</i>					
Fourth-Class					
Pieces, number	649,330	615,230	602,006	575,680	599,037
Weight, pounds	2,205,450	2,178,673	2,254,271	2,156,461	2,289,263
Revenue	\$ 872,793	\$ 822,917	\$ 814,291	\$ 763,003	\$ 773,988
International Surface					
Pieces, number	174,144	266,966	315,734	327,449	352,481
Weight, pounds	136,928	148,138	153,750	153,644	165,590
Revenue	\$ 188,861	\$ 205,896	\$ 220,877	\$ 212,753	\$ 212,862
International Air **					
Pieces, number	545,888	510,850	481,993	503,266	543,447
Weight, pounds	83,494	67,774	64,408	69,491	70,151
Revenue ***	\$ 782,705	\$ 751,256	\$ 713,249	\$ 710,834	\$ 677,919
Penalty					
Pieces, number	3,081,089	2,644,744	2,969,799	2,608,045	2,523,178
Weight, pounds	444,501	452,841	468,930	469,530	499,673
Revenue	\$ 965,296	\$ 844,158	\$ 896,376	\$ 848,896	\$ 788,894
Franked					
Pieces, number	798,357	507,019	751,769	682,914	923,955
Weight, pounds	19,656	13,875	17,441	14,847	19,744
Revenue	\$ 113,365	\$ 63,164	\$ 96,103	\$ 85,529	\$ 111,646
Free for the Blind					
Pieces, number	38,529	41,187	35,475	27,533	32,172
Weight, pounds	30,757	41,999	36,793	25,375	29,595
Totals					
Pieces, number	160,490,868	153,930,574	147,375,805	140,097,956	131,544,620
Weight, pounds	18,578,390	17,881,115	17,152,152	16,782,581	16,022,124
Revenue	\$ 33,922,865	\$ 30,498,546	\$ 29,123,377	\$ 26,817,794	\$ 24,446,002

** Figures have been revised to include International Express Mail service formerly included with Domestic Express Mail service.

*** Includes transit special handling and miscellaneous revenue.

Special Services	1988	1987	1986	1985	1984
<i>(in thousands of units indicated)</i>					
Registry					
Number of articles (paid and free).....	50,280	52,427	52,348	51,123	54,735
Revenue	\$ 171,728	\$ 159,514	\$ 167,363	\$ 164,038	\$ 162,979
Certified					
Number of pieces.....	164,450	160,602	147,374	130,698	124,112
Revenue	\$ 251,667	\$ 222,973	\$ 202,927	\$ 174,702	\$ 155,998
Insurance					
Number of articles.....	35,130	40,006	39,783	43,372	46,960
Revenue	\$ 48,153	\$ 51,733	\$ 50,344	\$ 51,043	\$ 54,229
Collection-on-Delivery					
Number of articles.....	9,603	10,405	10,383	11,022	11,960
Revenue	\$ 20,679	\$ 19,569	\$ 19,528	\$ 21,304	\$ 23,030
Special Delivery					
Number of articles.....	5,000	8,440	10,232	15,373	19,044
Revenue	\$ 19,217	\$ 25,144	\$ 30,448	\$ 40,496	\$ 40,681
Money Orders					
Number issued.....	144,050	141,977	133,799	117,792	115,550
Revenue fees.....	\$ 141,510	\$ 147,525	\$ 134,647	\$ 125,935	\$ 131,575
Other					
Box rent revenue.....	\$ 295,630	\$ 273,262	\$ 258,582	\$ 229,891	\$ 188,055
Stamped envelope revenue.....	22,927	18,434	14,743	16,831	13,883
Other revenue, net.....	141,377	111,412	100,132	94,037	97,122
Totals					
Special services revenue.....	\$ 1,112,888	\$ 1,029,566	\$ 978,714	\$ 918,277	\$ 867,552
Mail revenue.....	<u>33,922,865</u>	<u>30,498,546</u>	<u>29,123,377</u>	<u>26,817,794</u>	<u>24,446,002</u>
Operating revenue.....	<u>\$35,035,753</u>	<u>\$31,528,112</u>	<u>\$30,102,091</u>	<u>\$27,736,071</u>	<u>\$25,313,554</u>

Employees	1988	1987*	1986*	1985*	1984*
Headquarters—L'Enfant Plaza	2,311	2,101	2,000	2,296	2,238
Headquarters—Field Support Units	5,677	5,792	5,552	4,207	4,510
Field career employees					
Regional Offices	437	431	595	3,261	2,788
Inspection Service (field)	4,146	4,278	4,262	4,387	4,528
Postmasters	27,774	27,735	27,352	27,811	28,332
Supervisors	44,170	43,076	40,723	39,034	42,721
Prof. Admin. Tech. Personnel	10,532	10,582	8,717	7,263	2,009
Clerks	296,712	296,360	290,255	278,462	266,034
Nurses	321	325	328	324	238
Mailhandlers	49,937	48,879	48,095	46,467	41,711
City Delivery Carriers	236,160	229,706	224,106	212,667	201,232
Motor Vehicle Operators	7,117	7,031	6,866	6,436	5,995
Rural Delivery Carriers & Substitutes on Vacant Routes	39,095	36,551	35,938	35,206	34,679
Special Delivery Messengers	2,146	2,209	2,295	2,289	2,200
Bldg. & Equip. Maintenance Personnel ...	32,418	31,047	30,155	30,332	29,372
Vehicle Maintenance Personnel	4,828	4,705	4,526	4,365	4,262
Total career employees	763,781	750,808	731,765	704,807	672,849
Non-career employees					
Casuals	25,043	9,621	20,675	9,157	22,221
Non-Bargaining Temporary	272	297	309	362	366
Rural Subs/RCA/RCR/AUX	34,573	29,831	31,808	30,164	6,687
PM Relief/Leave Replacements	9,814	9,243	8,947	8,372	7,917
Offices, Stations and Branches	1988	1987	1986	1985	1984
Number of post offices	29,203	29,319	29,344	29,557	29,750
Number of stations and branches:					
Classified stations and branches	4,957	4,910	4,240	4,224	4,184
Contract stations and branches	4,294	4,087	3,965	3,856	3,744
Community post offices	1,663	1,714	1,721	1,690	1,708
Total	10,914	10,711	9,926	9,770	9,636
Grand total	40,117	40,030	39,270	39,327	39,386

* Figures have been revised to conform with current method of counting career paid employees using the On-Roll and Paid Employee Statistics data base.

Senior USPS Officers

Anthony M. Frank
Postmaster General

Michael S. Caughlin
Deputy Postmaster General

Edward E. Hargan, Jr.
Associate Postmaster General,
International

Kenneth J. Hunter
Associate Postmaster General,
Systems

Louis A. Cox
General Counsel

Charles R. Chausse
Chief Postal Inspector

David H. Charters
Senior Assistant Postmaster General,
Human Resources Group

Conner S. Coggie
Senior Assistant Postmaster General,
Finance Group

Peter E. Richens
Senior Assistant Postmaster General,
Marketing & Communications Group

Mitchell H. Gordon
Senior Assistant Postmaster General,
Administrative Services Group

John G. Malligan
Senior Assistant Postmaster General,
Operations Support Group

William A. Campbell, Jr.
Regional Postmaster General,
Southern Region

Joseph R. Carveo
Regional Postmaster General,
Western Region

William R. Cummings
Regional Postmaster General,
Northwest Region

Jerry E. Lee, Sr.
Regional Postmaster General,
Central Region

Johnny F. Thomas
Regional Postmaster General,
Eastern Region



Governors of the Postal Service



Left to right (seated): Norma Rice, Vice-Chairman of the Board; John E. Ryan, Chairman of the Board; John A. Cravener, James E. Charlade, and Charles Nicks. Standing: Mrs. D. Paul West, R. Mackin, Mrs. J. J. Jones, M.D., and Robert Simmons. Governor Mackin appointed November 15, 1980.

Board of Governors

John Grissom, Chairman of the Board of Governors, is President of the Grissom Stone Company and the General Warehouse Corporation in Springfield, MO. He became a Governor in December 1984 and was reappointed, without a break in service, to a full term expiring December 8, 1995. He was elected Chairman of the Board in January 1987.

John L. Ryan, Vice Chairman of the Board, became a Governor in May 1985 for a term expiring December 8, 1989. He retired as Vice President of METPRO Corporation and General Manager of the Dean Pump Division in Indianapolis, IN, in January 1987. He was elected Vice Chairman of the Board in June 1986.

Crocker Nevla, Chairman of the Audit Committee of the Board, became a Governor in August 1986 for a term expiring December 8, 1992. He is the Chairman of the Board and Chief Executive Officer of CFI Steel Corporation. He also served on the Board of Governors from 1971 to 1977.

Bruce E. Alvarado, Vice President of E. Bruce Harrison Co., a Washington, DC public relations firm, was appointed in July 1989 to serve on the Board for a term expiring December 8, 1996. Formerly Assistant for Legislative Affairs to Vice President George Bush, the latter served as Vice President for the National Association of Broadcasters.

Thoro C. de Juncos, M.D., a Los Angeles surgeon and entrepreneur, was appointed to the Board in July 1988 for a term expiring December 8, 1995. He founded and served as Chairman of the Board of the Los Angeles National Bank and now serves as a member of the Board of Regents of the University of California.

Ira D. Hall, Assistant Treasurer of the International Business Machines Corporation, was appointed to serve on the Board on December 7, 1987. His term will expire December 8, 1990. Prior to joining IBM, he was Senior Vice President of the investment firm of L.E. Rothschild, Ussenberg, Towbin.

Bert H. Huckle, Executive Vice President of the Security National Bank of Enid, OK, was appointed to serve on the Board on December 9, 1988. His term expires December 8, 1997. He is an Oklahoma State Regent for Higher Education, which coordinates Oklahoma's 25 colleges and universities.

Norma Pace, an economist and consultant to several top corporations in the nation, was appointed to serve on the Board in May 1987 for a term expiring December 8, 1994. She is the author of numerous articles for business publications on forecasting and the use of forecasting in business planning.

Robert Setrakian, a San Francisco businessman, was appointed to the Board in December 1985 for a term expiring December 8, 1995. He is President of the William Saroyan Foundation and active in numerous civic endeavors. He previously served as a Commissioner of the Federal Maritime Commission from 1983 to 1985.

Anthony M. Frank was appointed the nation's 1995 Postmaster General by the Board on February 2, 1988, taking office March 1, 1988. Prior to joining the Postal Service, he was Chairman of the Board and Chief Executive Officer of First Nationwide Bank, one of the nation's largest consumer banking operations.

Michael E. Coughlin was named Deputy Postmaster General by the Board on January 5, 1987 after holding a series of top-level postal management positions. Now the chief operating officer of the Postal Service, he entered it in 1967 as a management trainee.

Also serving on the Board during Fiscal Year 1988 were Ruth O. Peters, whose term expired December 8, 1987, who continued to serve as provided by law until July 1988; J. H. Tyler McConnell, whose term expired December 8, 1988, and Preston R. Tuck, who resigned as Postmaster General in February 1988.